

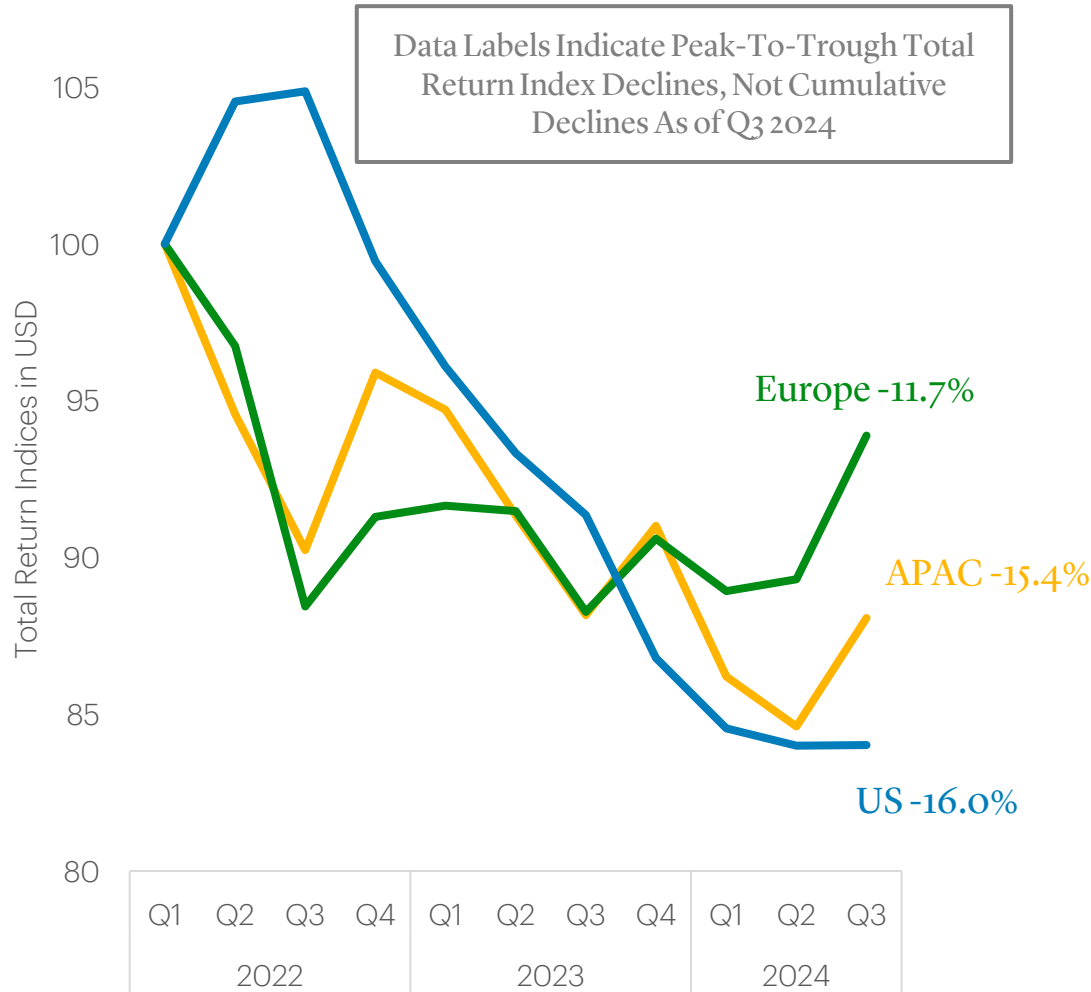
# Real Estate in 2025...

Another train, or the light at  
the end of the tunnel?

Presentation to The Real Real Real Realty Club, January 31, 2025  
Emi Adachi, Managing Director and Co-Head of Global Investment Research  
Mary Ludgin, Senior Advisor and Global Investment Committee Member

**HEITMAN**

**CORE FUND TOTAL RETURN INDICES IN USD  
GLOBAL Q1 2022 – Q3 2024**



The battle against inflation took a toll on commercial real estate

Higher interest rates caused values to decline across the globe

Real estate's inflation-hedging capabilities were undermined by shifts in valuation metrics – higher yields and discount rates

Source: NCREIF; accessed January 7, 2025.

# US Macro Outlook

# Good News for the US Economy: Trump's Policies Could Spark Economic Growth

HEITMAN



The fight against inflation did not push the US economy into recession

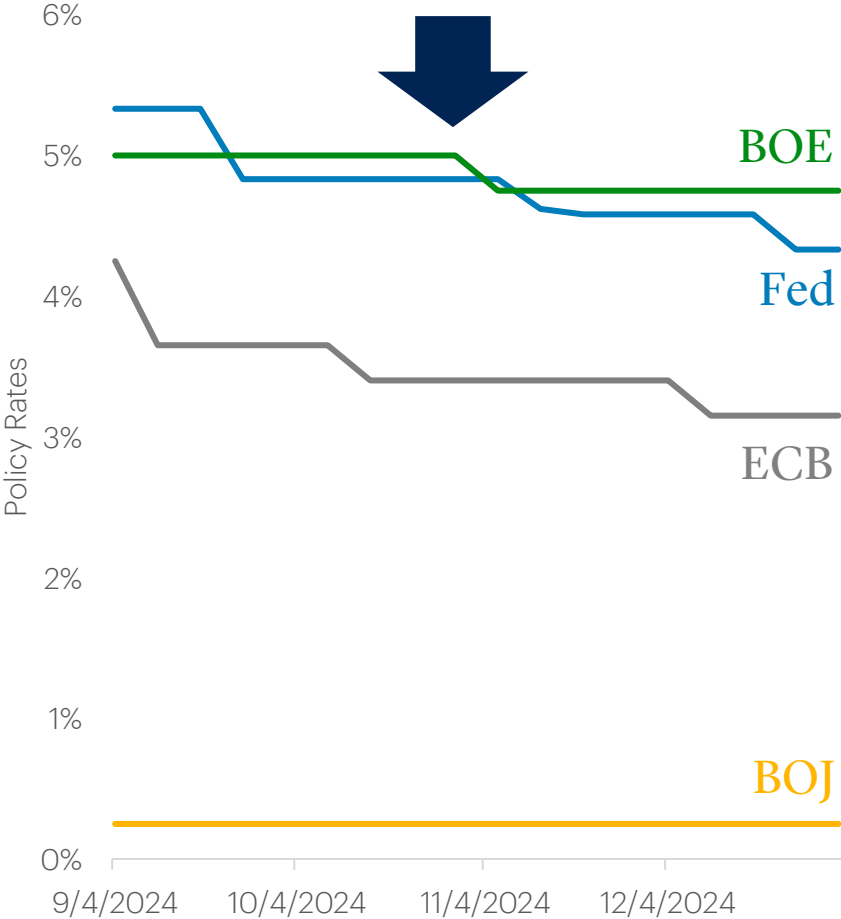
Trump is inheriting an economy that has accelerated recently

His policies are generally pro-growth, led by deregulation, cuts in federal spending, potential for resolution of two wars, animal spirits

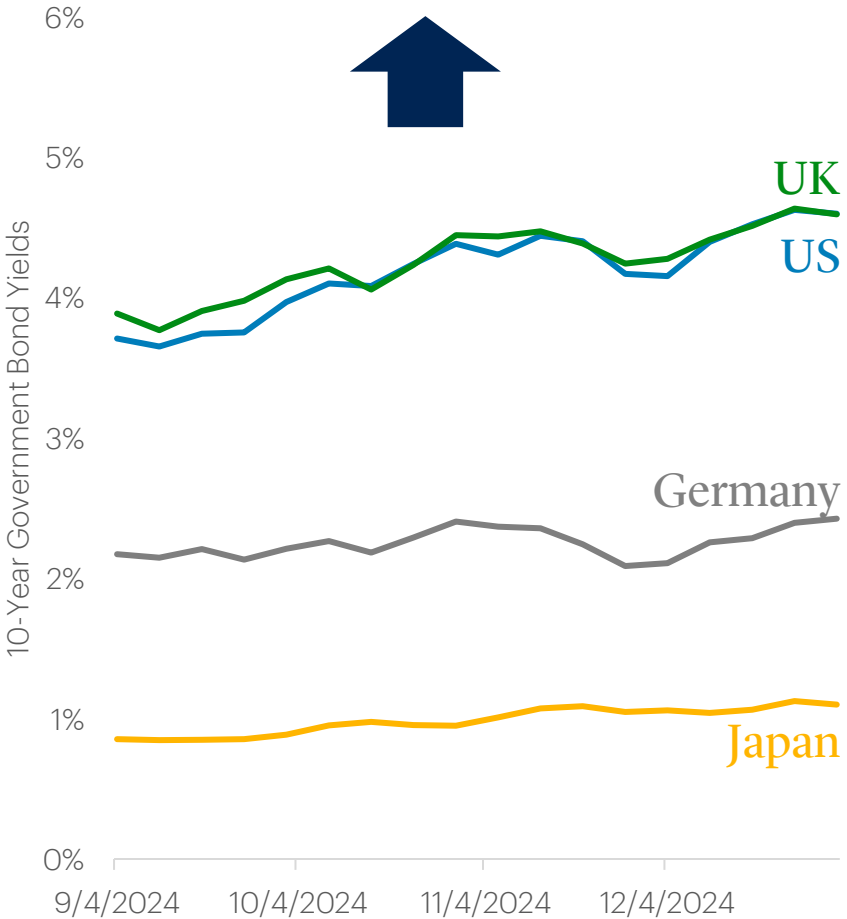
BUT...

# The Global Bond Markets Aren't Behaving As Inflation Proves Sticky

**POLICY RATES**  
GLOBAL SEPTEMBER 4, 2024 – JANUARY 1, 2025



**10-YEAR GOVERNMENT BOND YIELDS**  
GLOBAL SEPTEMBER 4, 2024 – JANUARY 1, 2025



Data Source: Bloomberg; accessed January 7, 2025.

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HEITMAN BELIEVES THAT:

**New administration's policies generally pro-growth;** recession risk low

---

**Stronger GDP growth expected ahead,** though inflation proving sticky

---

**Transaction volume is sluggish,** but 2025 should see a rebound

---

**Most property sectors still healthy;** commodity office is the exception

---

**Property operations should support values,** perhaps offsetting higher rates

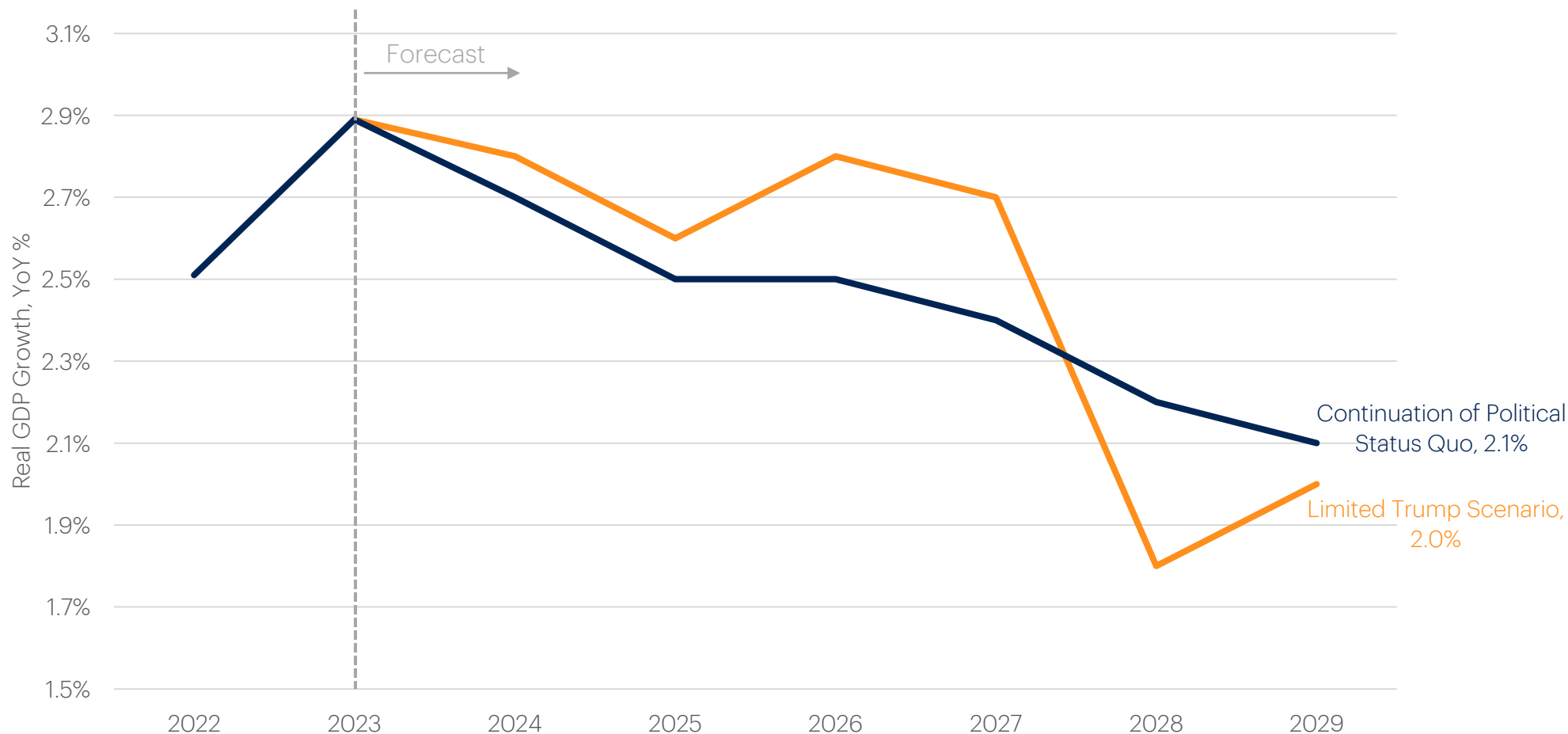
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**Market dislocation presents opportunity** across the risk/return spectrum

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# GDP Boost in First Half of Trump Presidency Could Give Way to Slower Growth in Out Years

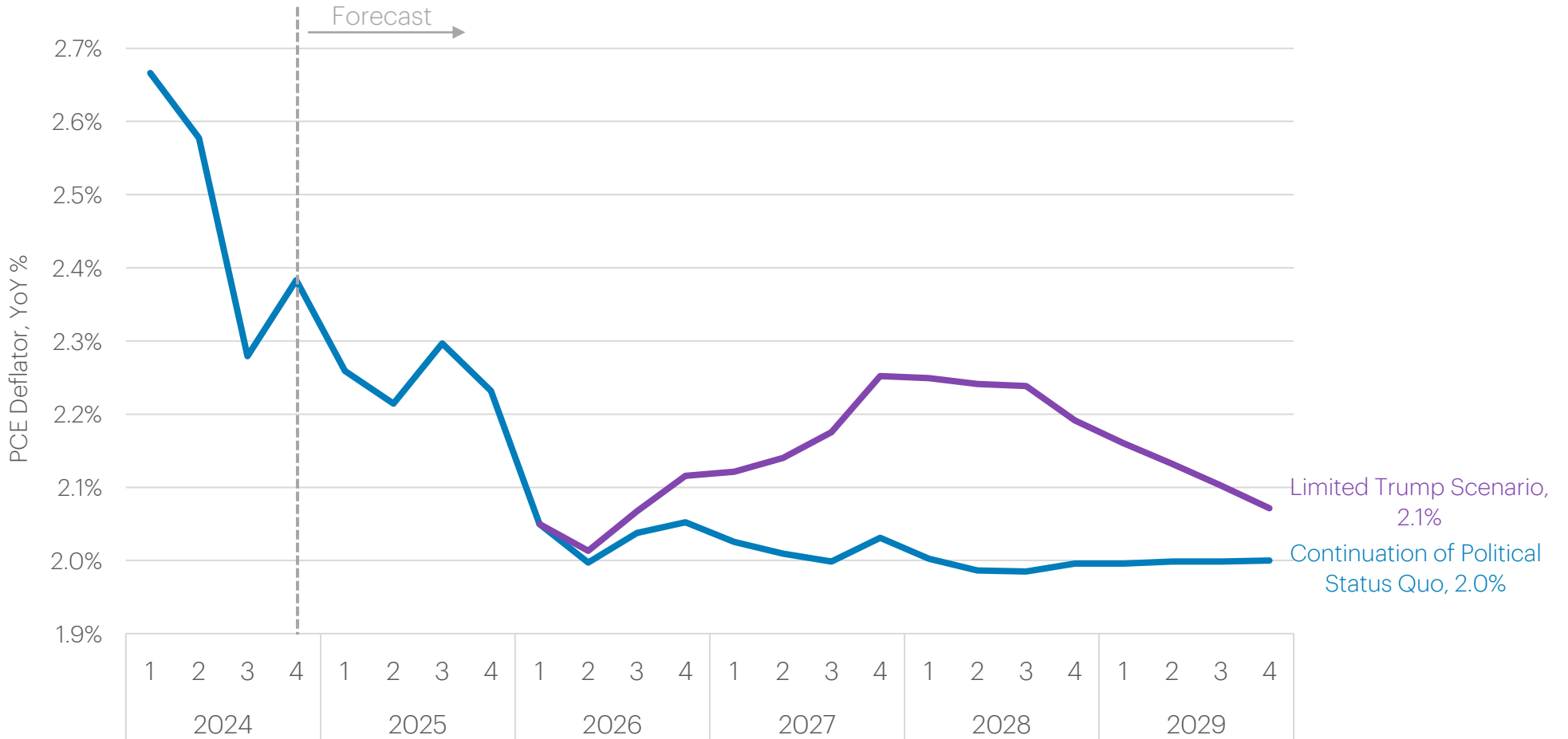
**REAL GDP GROWTH: FORECASTS**  
**US 2022 – 2029F, ANNUAL, YOY %**



Data Source: Oxford Economics, Global: Small growth revisions mask deeper tectonic shifts, November 7, 2024

# Inflation Projected to Rise Above Current Trend

## PERSONAL CONSUMPTION DEFLATOR US 2024 - 2029F, QUARTERLY, YOY %



Data Source: Oxford Economics, US: New president, new forecast, and your questions, November 8, 2024



# New Economic Policies May Be Positive for Residential and Office; Negative for MOB, Industrial, and Retail

## FUNDAMENTALS: NEAR- TO MEDIUM-TERM

	Residential	Student	MOB	Office	Industrial	Retail	Self-Storage	Senior Housing
Deregulation**	↑	↗	↘	↗	↗	↗	↔	↗
Tariffs*	↗	↘	↔	↔	↓	↓	↘	↘
Immigration*	↓	↘	↓	↘	↓	↓	↘	↘
Tax Policy Change*	↑	↗	↔	↑	↑	↑	↗	↑
<b>Net Effect</b>	↗	↔	↘	↗	↘	↘	↔	↔

**\*\*Deregulation:** Reduction in federal government capacity and workforce that leads to more efficient operations and minor deficit reduction. Though specifics are scarce, likely candidates for deregulation are environmental (EPA) and financial (SEC, CFPB, FTC).

**Tariffs:** Assumes targeted tariffs, leading to a 5% effective tariff rate (+2% from current level), beginning at the start of 2026 and phased in over the course of the year. (25% tariffs on steel, aluminum, and motor vehicle imports from the EU, 25% tariffs on machinery/electronics and chemical imports from China, 10% tariffs on steel, aluminum, and any Chinese-made electric vehicles from China, and 10% tariffs on Canadian steel, aluminum, base metals, and dairy products).

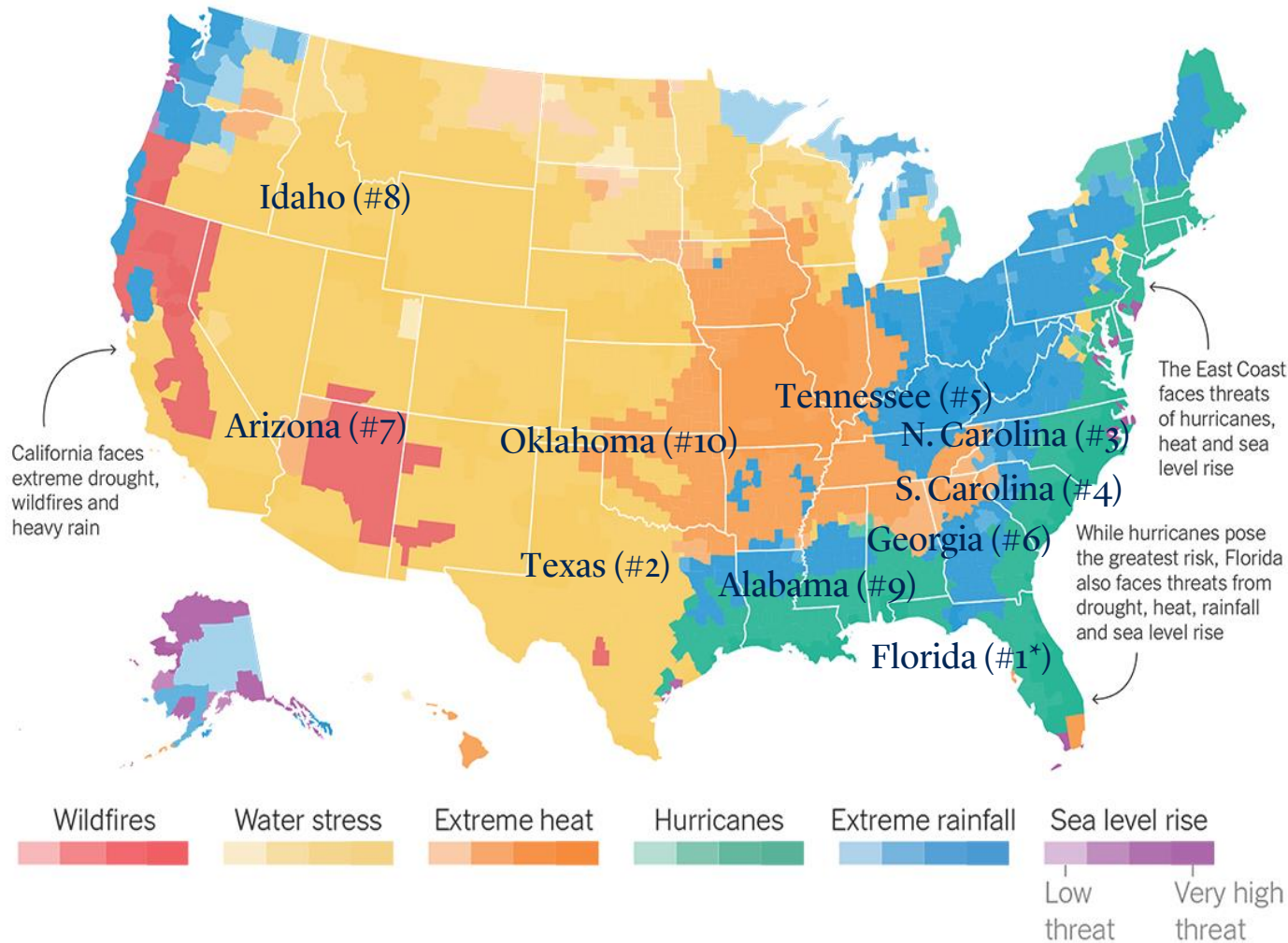
**Immigration:** Assumes more restrictive policy beginning in mid-2025, slowing the flow of humanitarian migration via lower refugee admissions and reinstatement of the Migrant Protection Protocols. Implementation results in net migration falling to 800k/year (versus previous baseline assumption of 1.1M/year).

**Tax Policy Change:** Assumes a preservation of the expiring provisions of the 2017 Tax Cuts and Jobs Act (TCJA). This would include full extension of the personal side of the tax code (including the lower marginal tax rates on individual income, higher Alternative Minimum Tax exemption, larger standard deduction, and an expanded Child Tax Credit) and some of the business tax provisions (including 100% bonus depreciation and the immediate deduction of research and development expenses). Outside of the TCJA, assumes partial reversal of the Inflation Reduction Act, particularly the electric vehicle tax credits.

\*These fields (above in white) are based on Oxford Economics' new Baseline, formerly "Limited Trump", scenario reduction Act, particularly the electric vehicle tax credits.

# Climate Change Consequences Are Increasingly Evident But ...

HEITMAN



Climate risk is a factor shaping individual and corporate migration in some parts of the globe

But migration patterns in the US are generally toward fragile areas in south and southwest

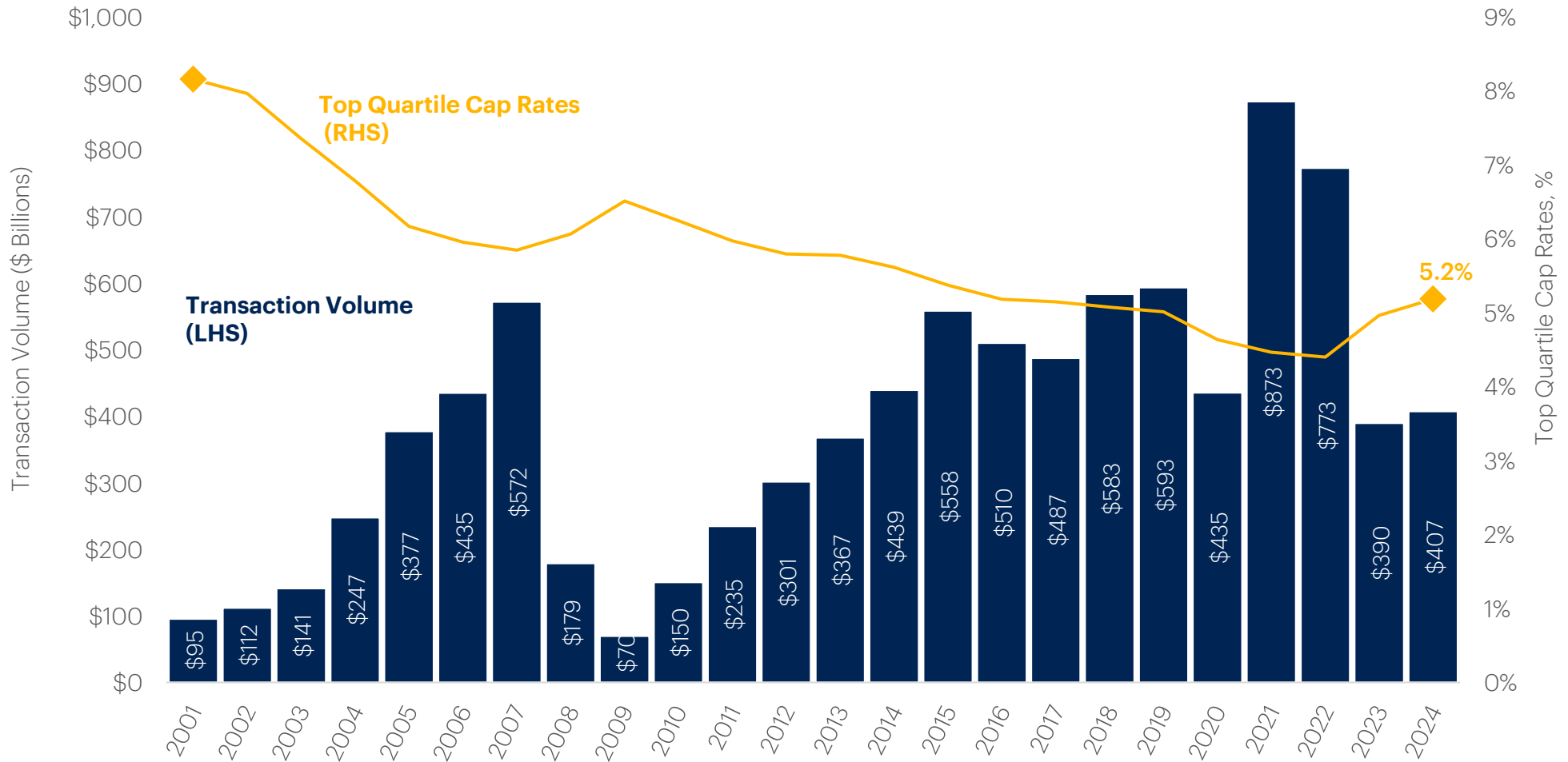
When will that change?

\*Top 10 states for population growth  
Source: US Census Bureau; Moody's ESG Solutions; Heitman Research

# US Real Estate Capital Markets & Valuations

# Investment Volumes Down From Post-Crisis Peak

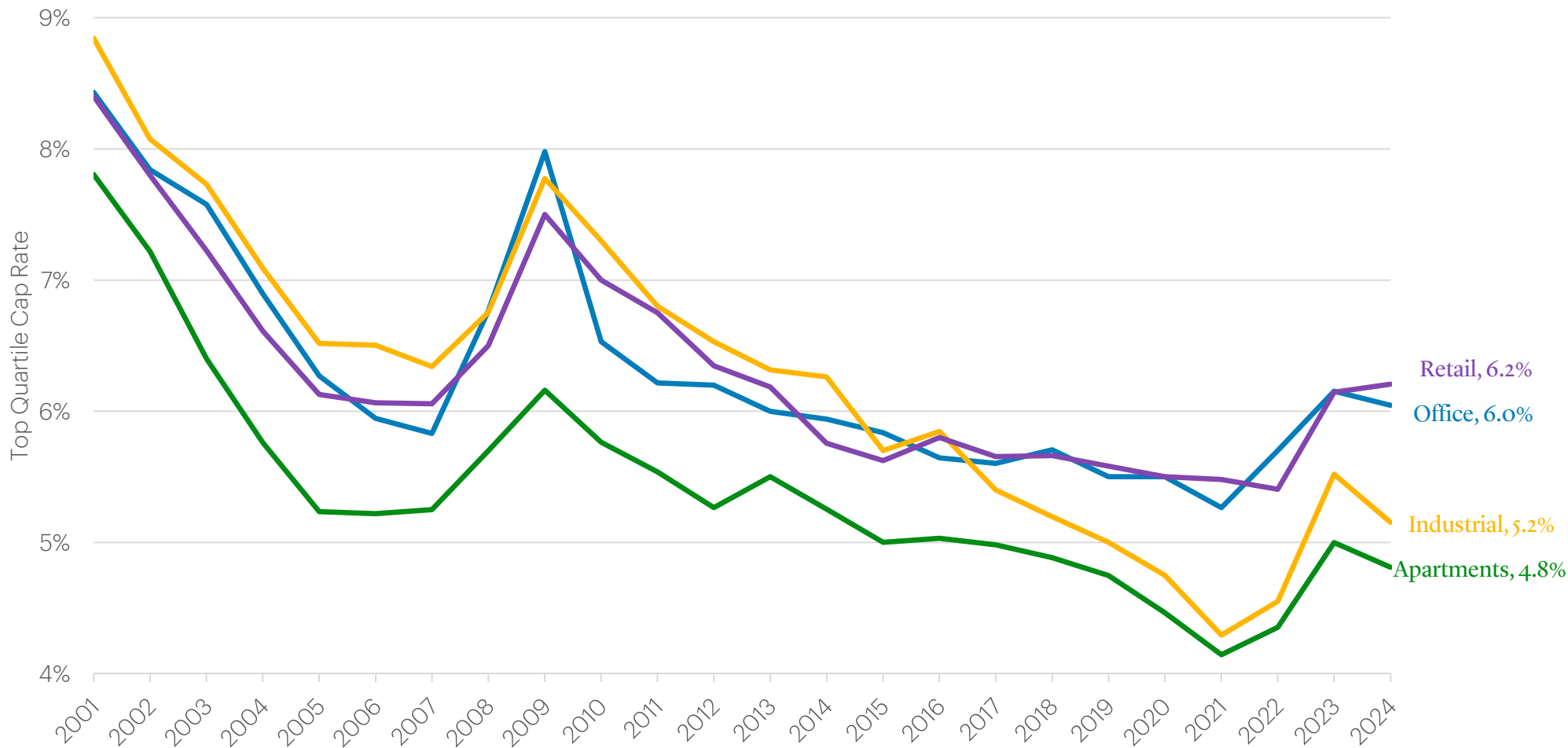
## ANNUAL TRANSACTION VOLUME & TOP QUARTILE CAP RATES US 2001 – 2024, USD BILLIONS



Data Source: MSCI Real Capital Analytics Database, Accessed 2025 Q1

# Cap Rates Expanded as Rate Hikes Occurred With Some Recent Divergence

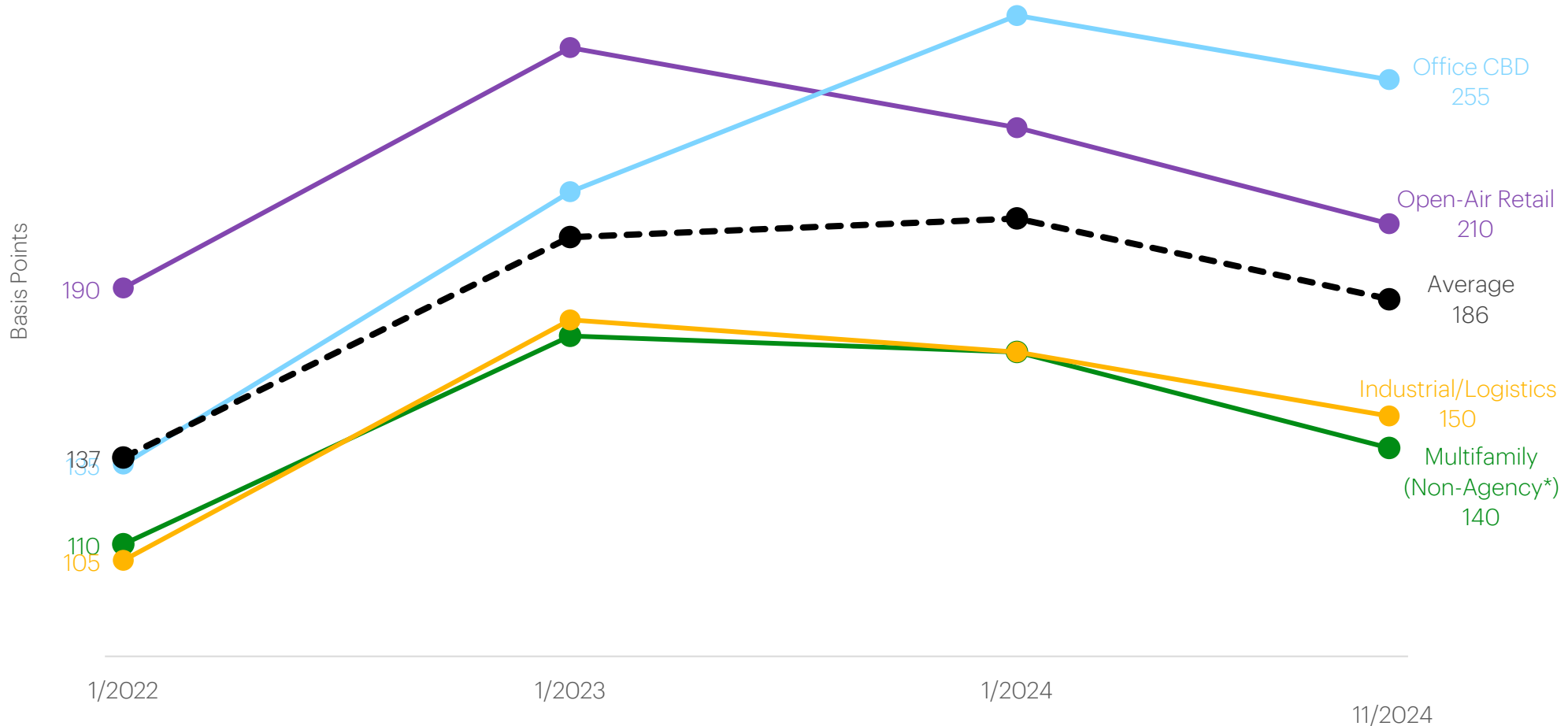
## TOP QUARTILE CAP RATES BY SECTOR US 2001 - 2024



Data Source: MSCI Real Capital Analytics Database Database, Accessed 2025 Q1

# Loan Spreads Have Fallen, Even for Office

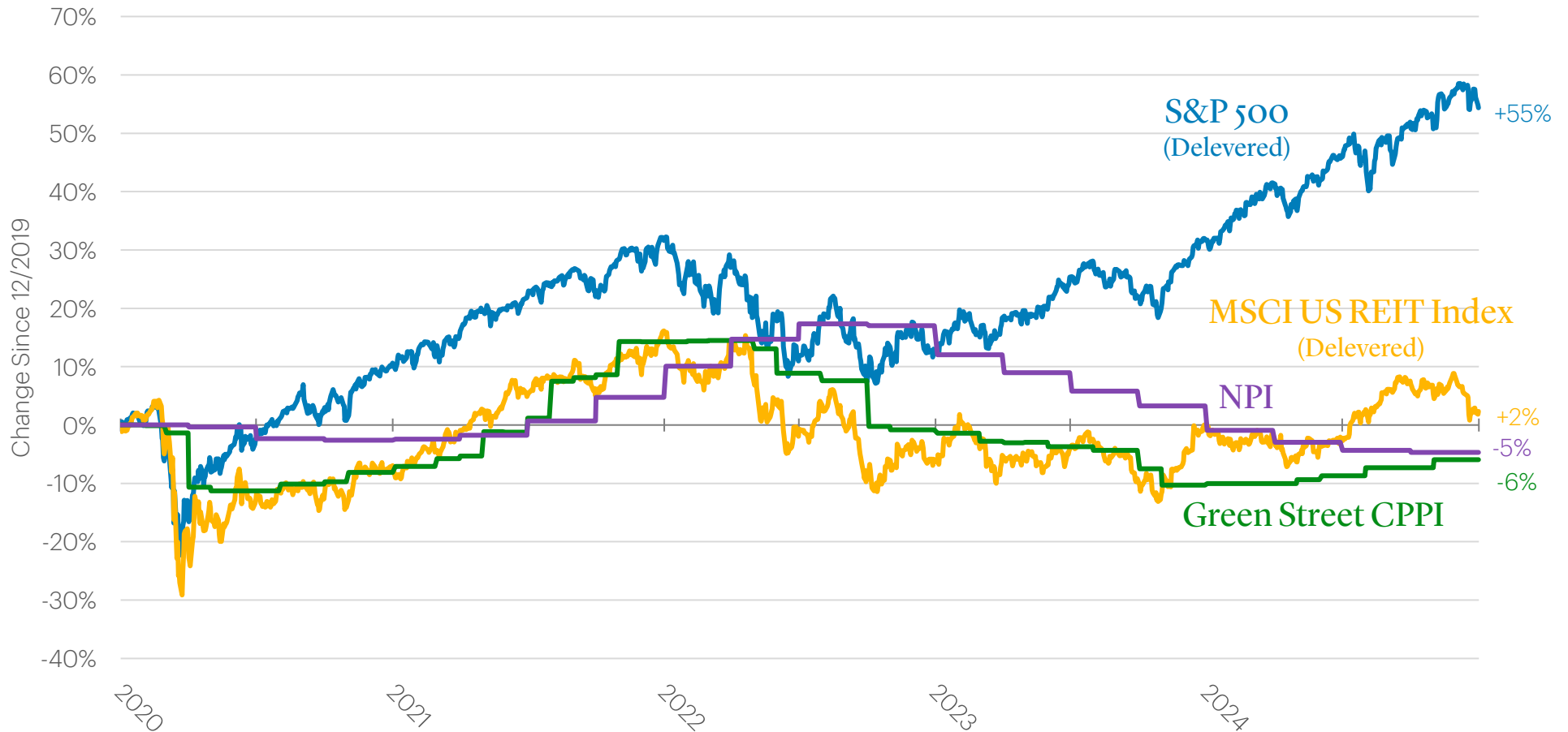
**FIXED RATE, 10-YEAR COMMERCIAL MORTGAGE SPREADS OVER 10-YEAR TREASURY  
US 2022 JANUARY - 2024 NOVEMBER**



\*: Non-government-sponsored enterprises, such as Fannie Mae and Freddie Mac.  
Source: Cushman & Wakefield, Bloomberg (CWGS Screen), Assumes LTV < 60%, Spreads over 10-year Treasury

# Private Real Estate Now Looks Undervalued vs. Public Markets

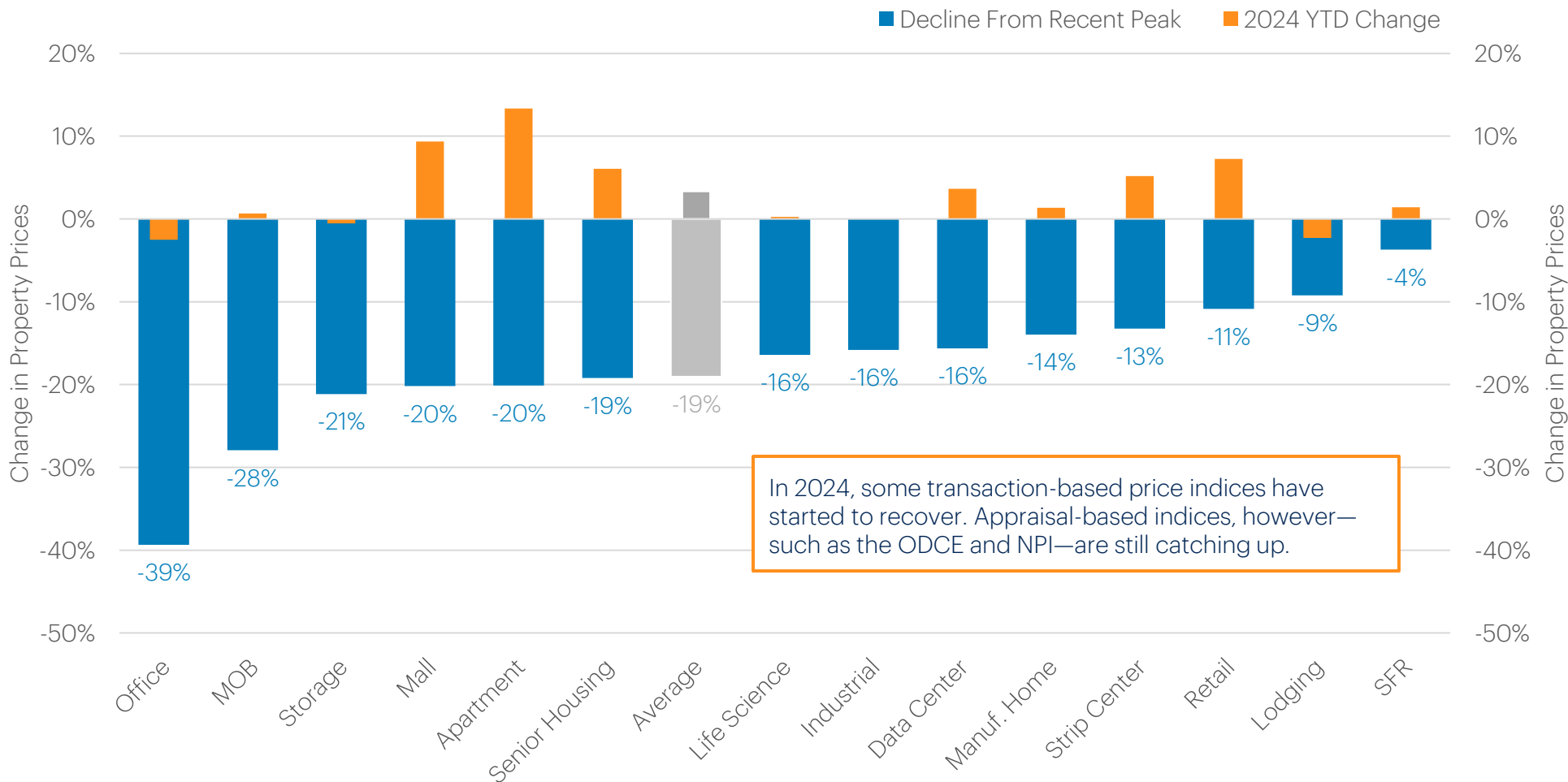
## CAPITAL VALUE INDEX CHANGE SINCE END-2019 US 2020 – 2024, DAILY



Data Sources: Green Street, NCREIF, & Bloomberg databases, accessed 2025 Q1. Daily data is through December 31<sup>st</sup>. MSCI REIT Index (RMZ) and ODCE indices are delevered. Indices represent capital returns only, and do not include income returns.

# Interest Rate Stabilization Has Led to Some Modest Valuation Recovery in 2024

## CHANGE TO PROPERTY PRICES YTD & TOTAL DECLINE FROM RECENT PEAK AS OF 2024 NOVEMBER



Underlying Data Sources: Green Street Commercial Property Price Index (CPPI), accessed 2024 Q4

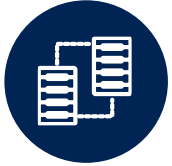


# US Real Estate Fundamentals & Strategy

# Most Property Sectors Still Healthy

HEITMAN

## Going Strong/ Gaining Momentum



**DATA CENTER**



**SINGLE-FAMILY RENTAL**



**STUDENT HOUSING**



**MANUFACTURED HOUSING**

## Steady State/ In Recovery



**MEDICAL OFFICE**



**RETAIL**

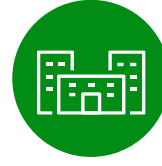


**SENIOR HOUSING**

## Moderating From Historically High Levels



**INDUSTRIAL**



**APARTMENT**



**SELF-STORAGE**

## Facing Headwinds



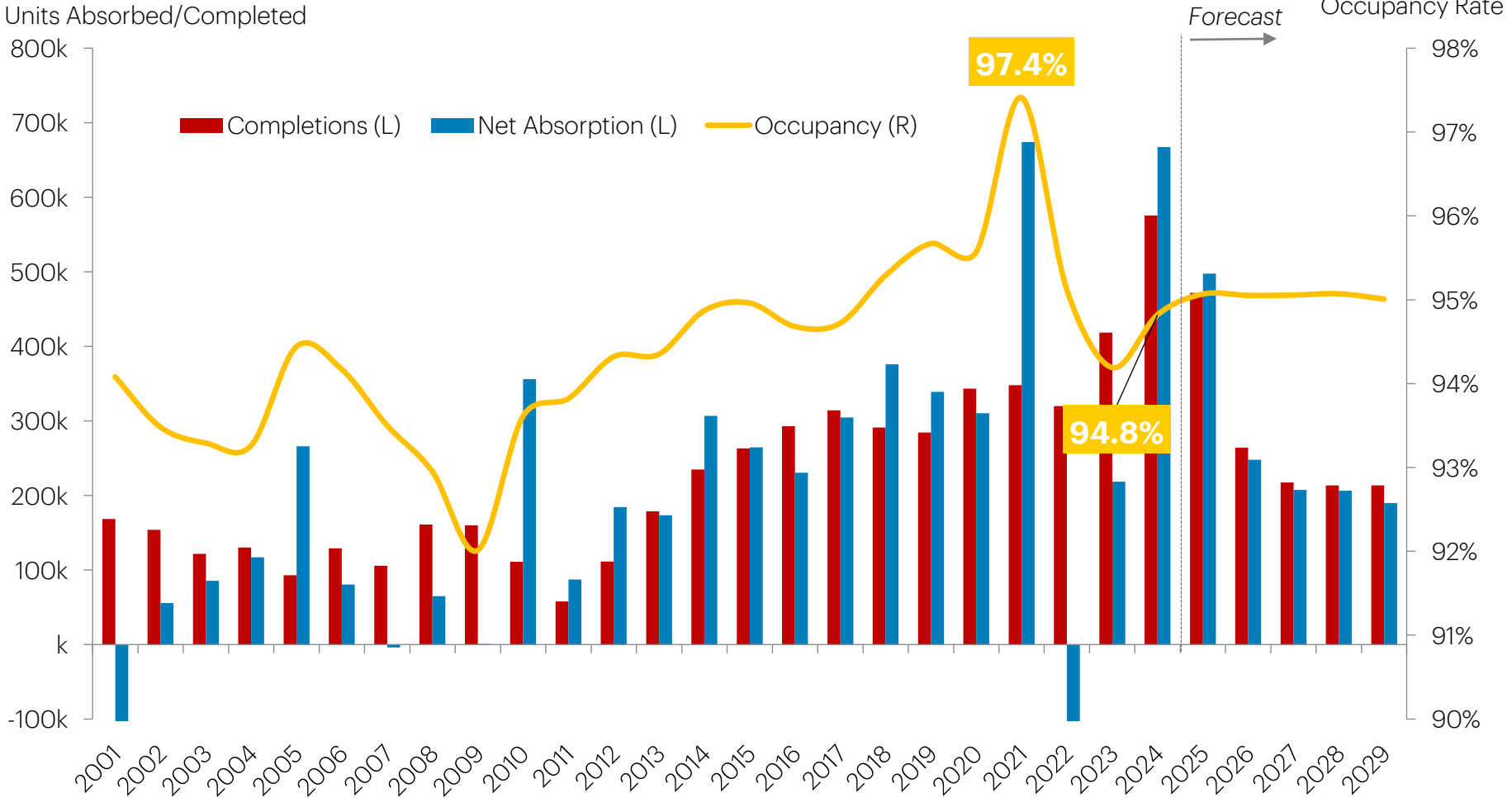
**OFFICE**



**LIFE SCIENCE**

# Apartment Occupancy Rising; Supply Headwinds Remain

## APARTMENT COMPLETIONS, NET ABSORPTION AND OCCUPANCY US 2001-2029F (YEARS ENDING Q4)

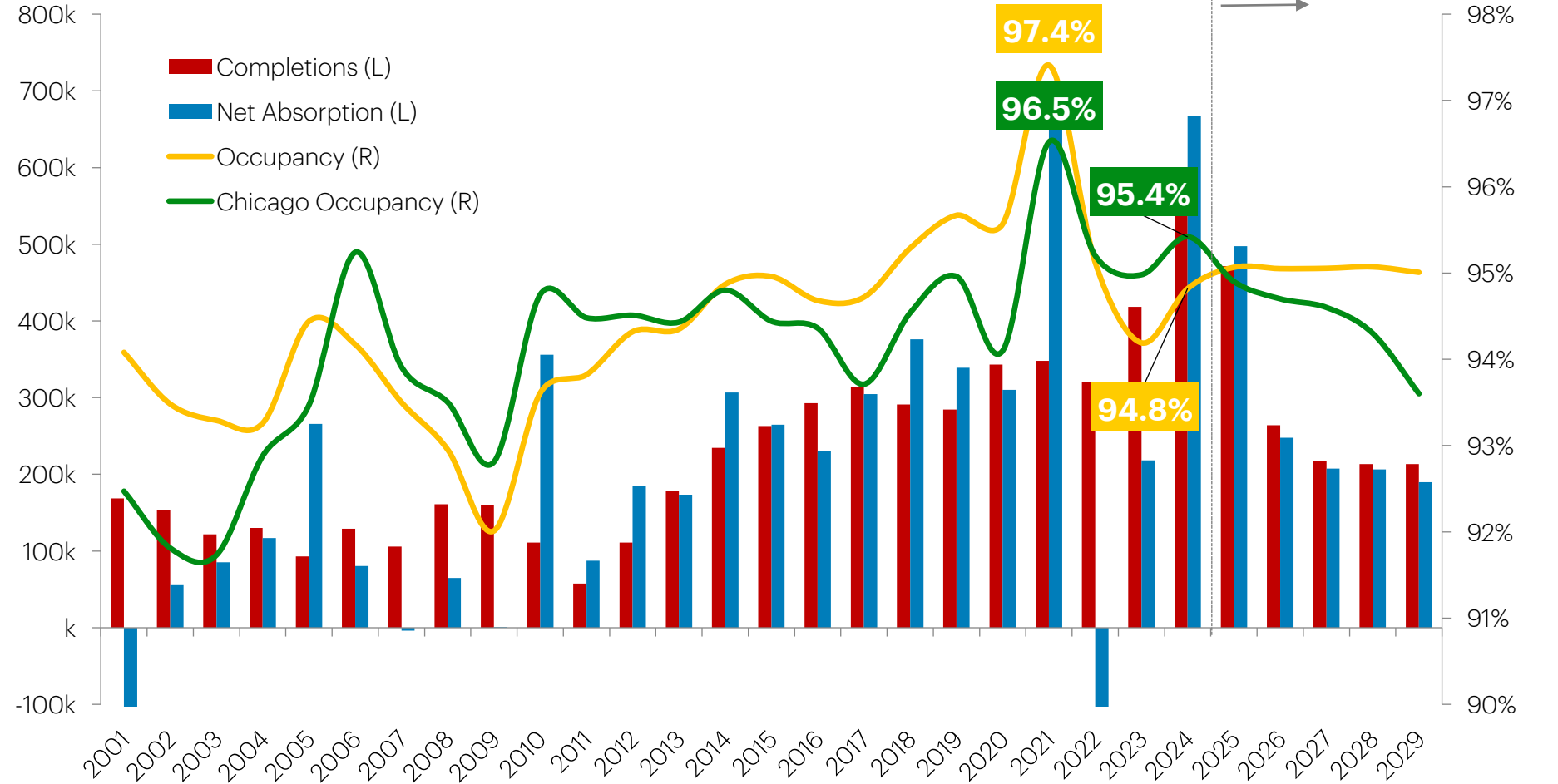


Data Sources: RealPage Database, Accessed 2025 Q1

# Chicago Has Been a Strong Performer in Apartments

## APARTMENT COMPLETIONS, NET ABSORPTION AND OCCUPANCY US 2001-2029F (YEARS ENDING Q4)

Units Absorbed/Completed

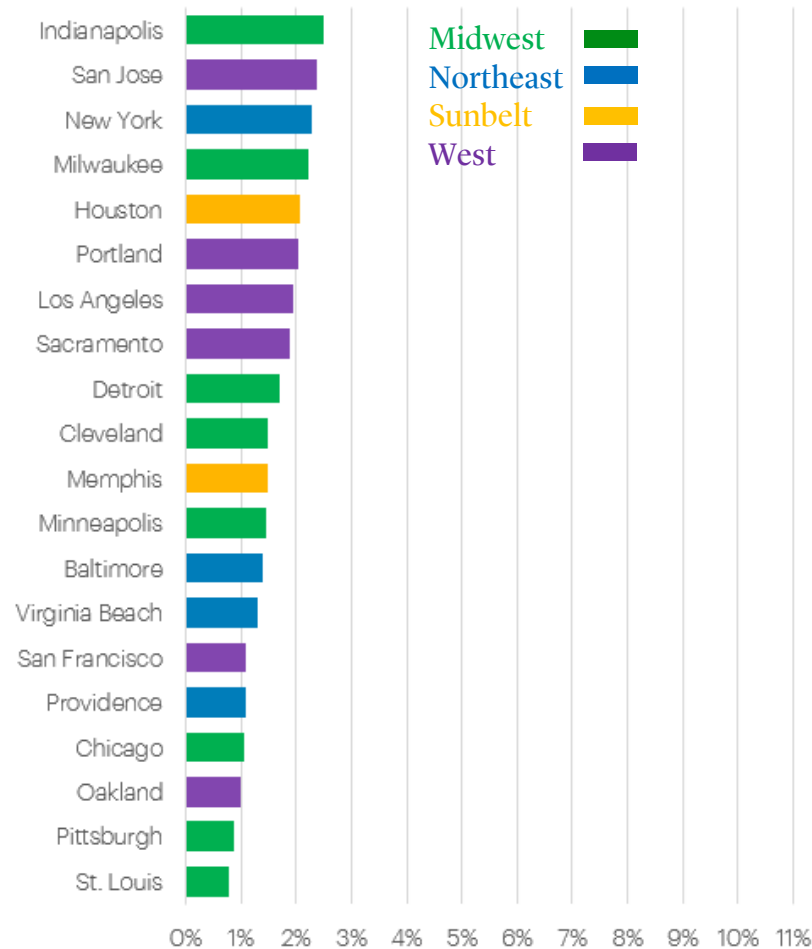
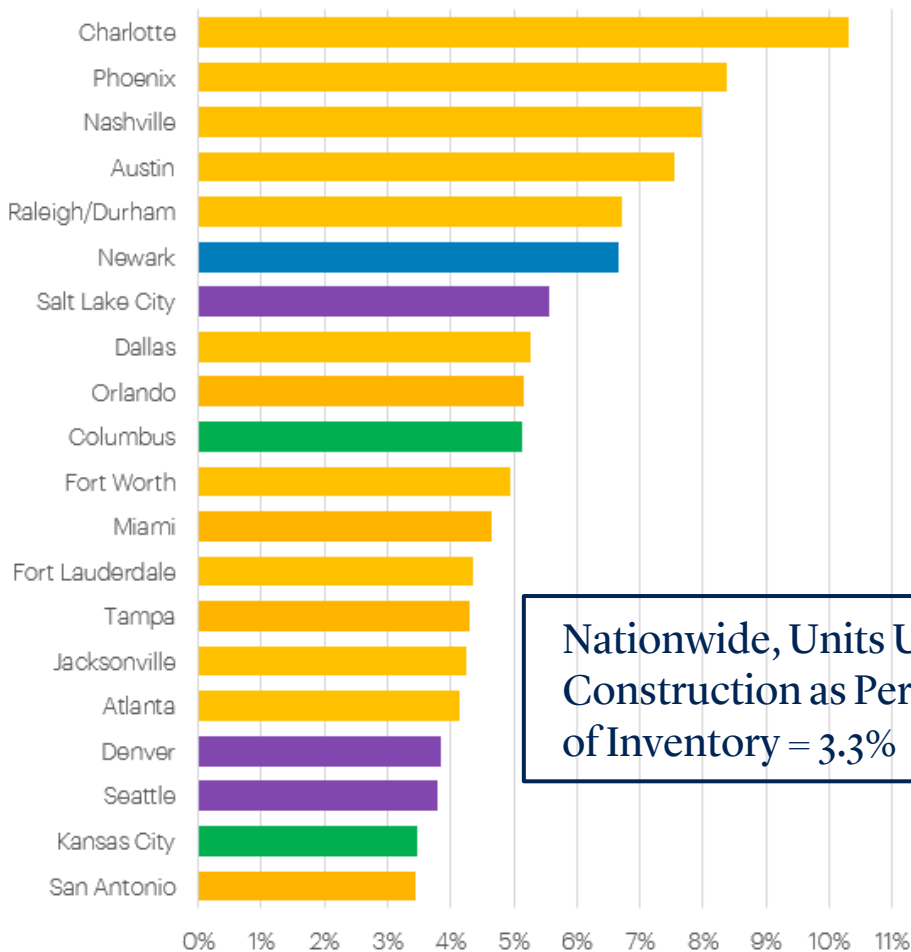


Data Sources: RealPage Database, Accessed 2025 Q1

# Elevated Supply Will Test Mettle Of Hot Apartment Markets

**APARTMENT UNITS UNDER CONSTRUCTION AS PERCENT OF INVENTORY, TOP 20 MARKETS - 4Q24**

**APARTMENT UNITS UNDER CONSTRUCTION AS PERCENT OF INVENTORY, BOTTOM 20 MARKETS - 4Q24**



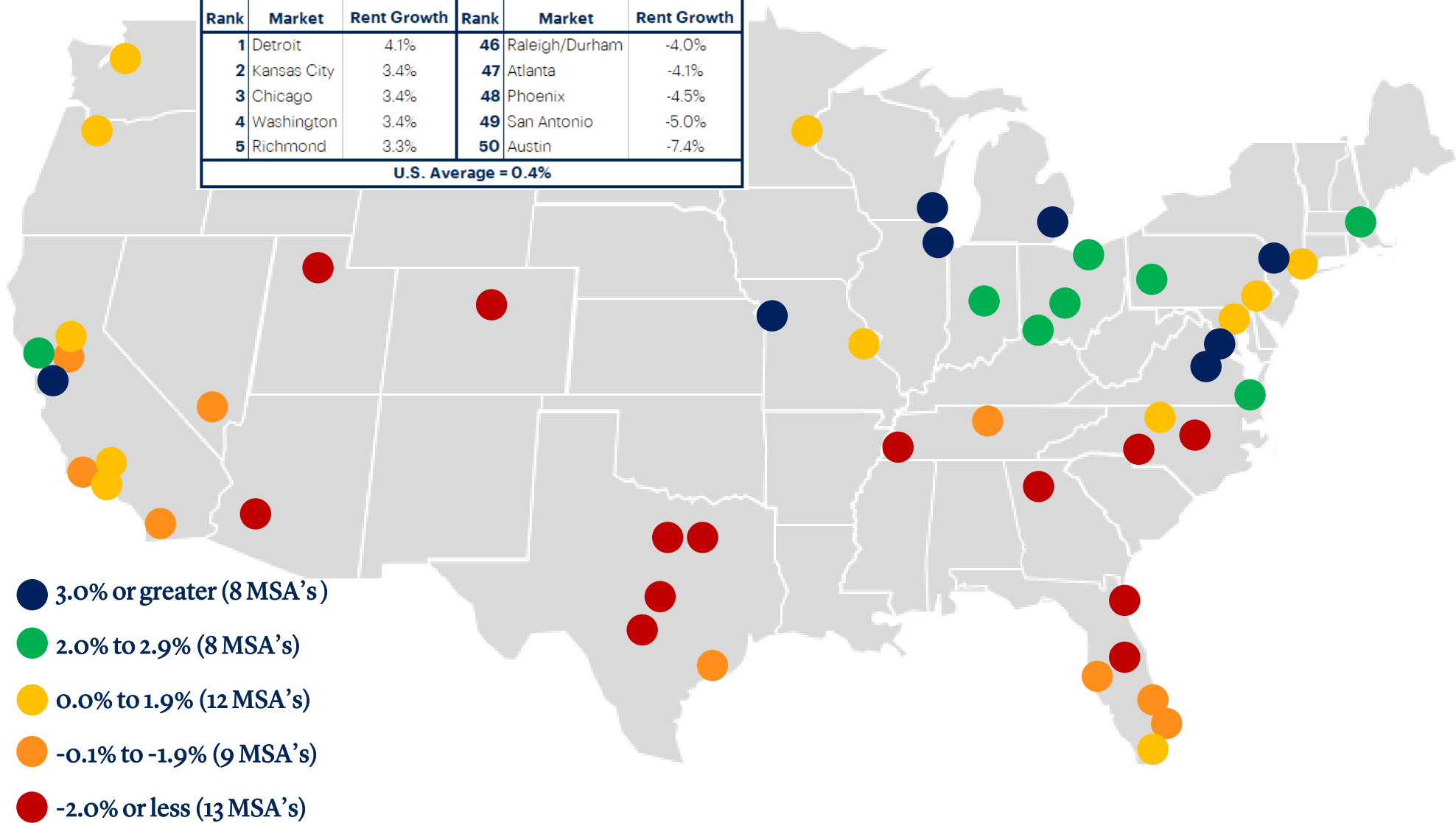
Nationwide, Units Under Construction as Percent of Inventory = 3.3%

Data Sources: RealPage Database, Accessed 2025 Q1

# Sunbelt Sees Apartment Rent Cuts While Midwest and Northeast Post Modest Growth

HEITMAN

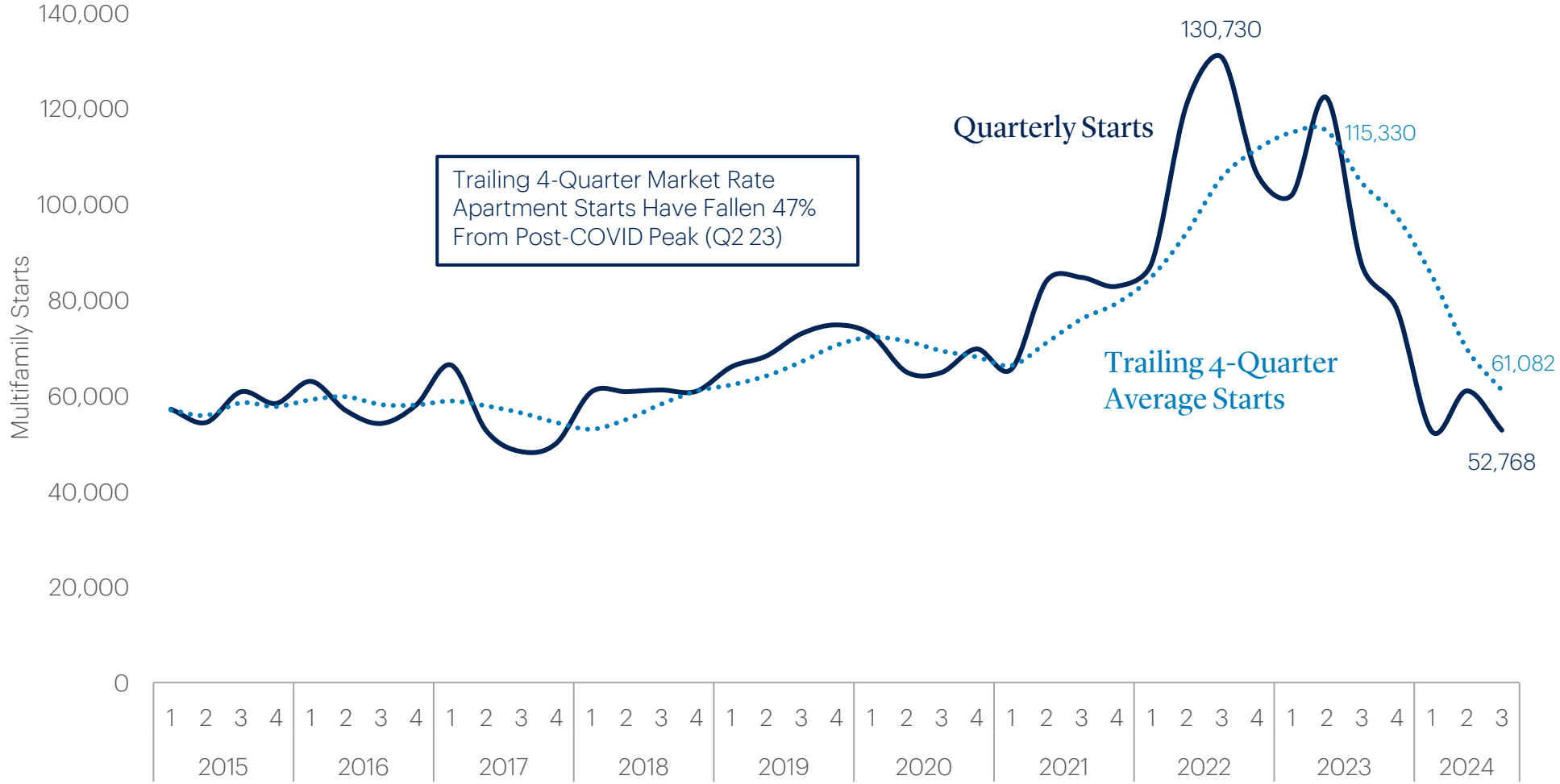
Rank	Market	Q4 2024 YOY Rent Growth	Rank	Market	Q4 2024 YOY Rent Growth
1	Detroit	4.1%	46	Raleigh/Durham	-4.0%
2	Kansas City	3.4%	47	Atlanta	-4.1%
3	Chicago	3.4%	48	Phoenix	-4.5%
4	Washington	3.4%	49	San Antonio	-5.0%
5	Richmond	3.3%	50	Austin	-7.4%
<b>U.S. Average = 0.4%</b>					



Data Sources: RealPage Database, Accessed 2025 Q1

# Apartment Starts Off Record Highs, Nearing Pre-COVID Trend

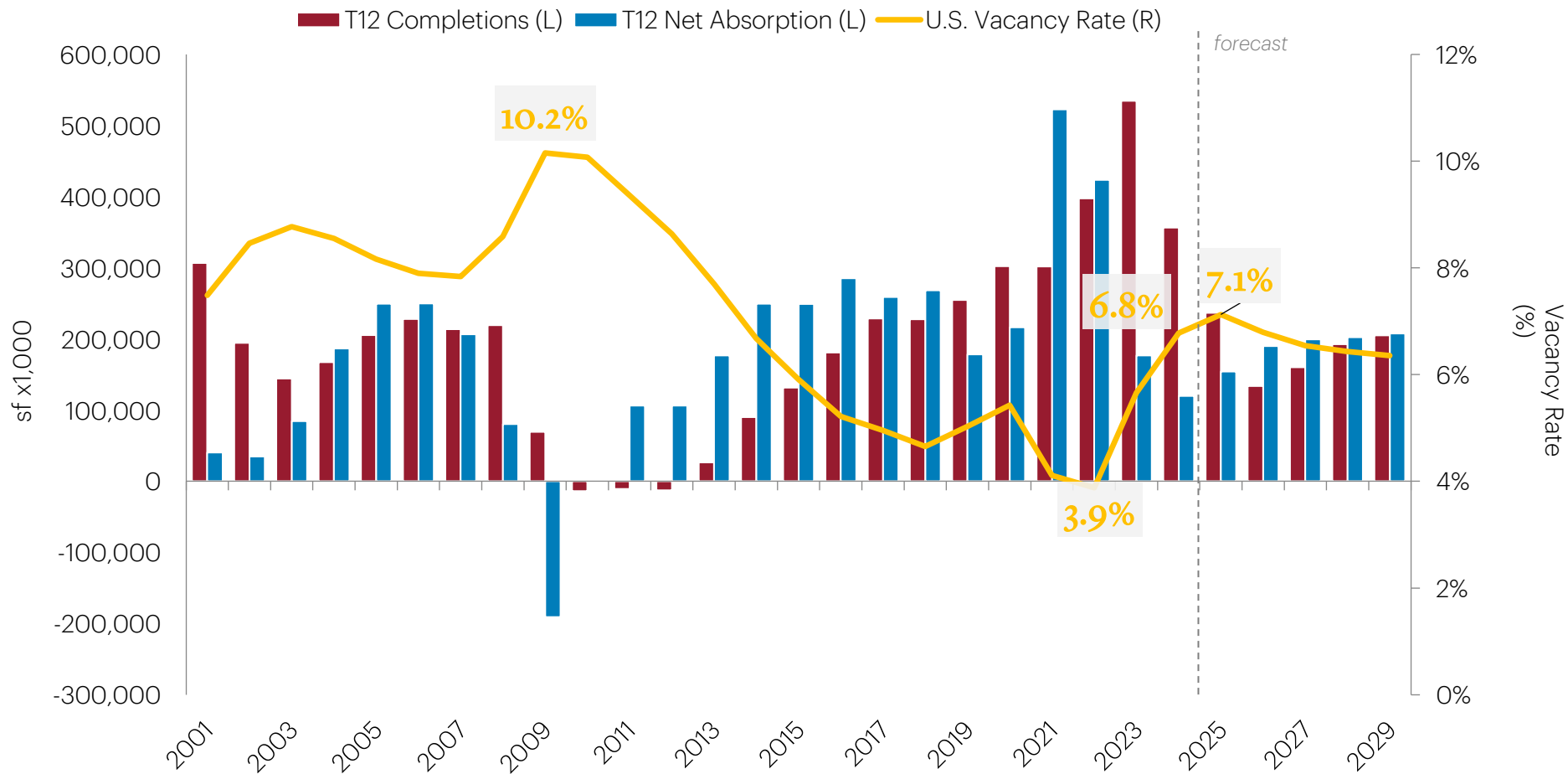
**CONVENTIONAL APARTMENT STARTS**  
**US 2015 - 2024 (Q3)**



Data Sources: Yardi Matrix, accessed Q4 2024

# Industrial Vacancy Rates Rising as Supply Outpaces Demand

**INDUSTRIAL COMPLETIONS, NET ABSORPTION, AND VACANCY  
US 2001-2029(F) (YEARS ENDING Q4)**

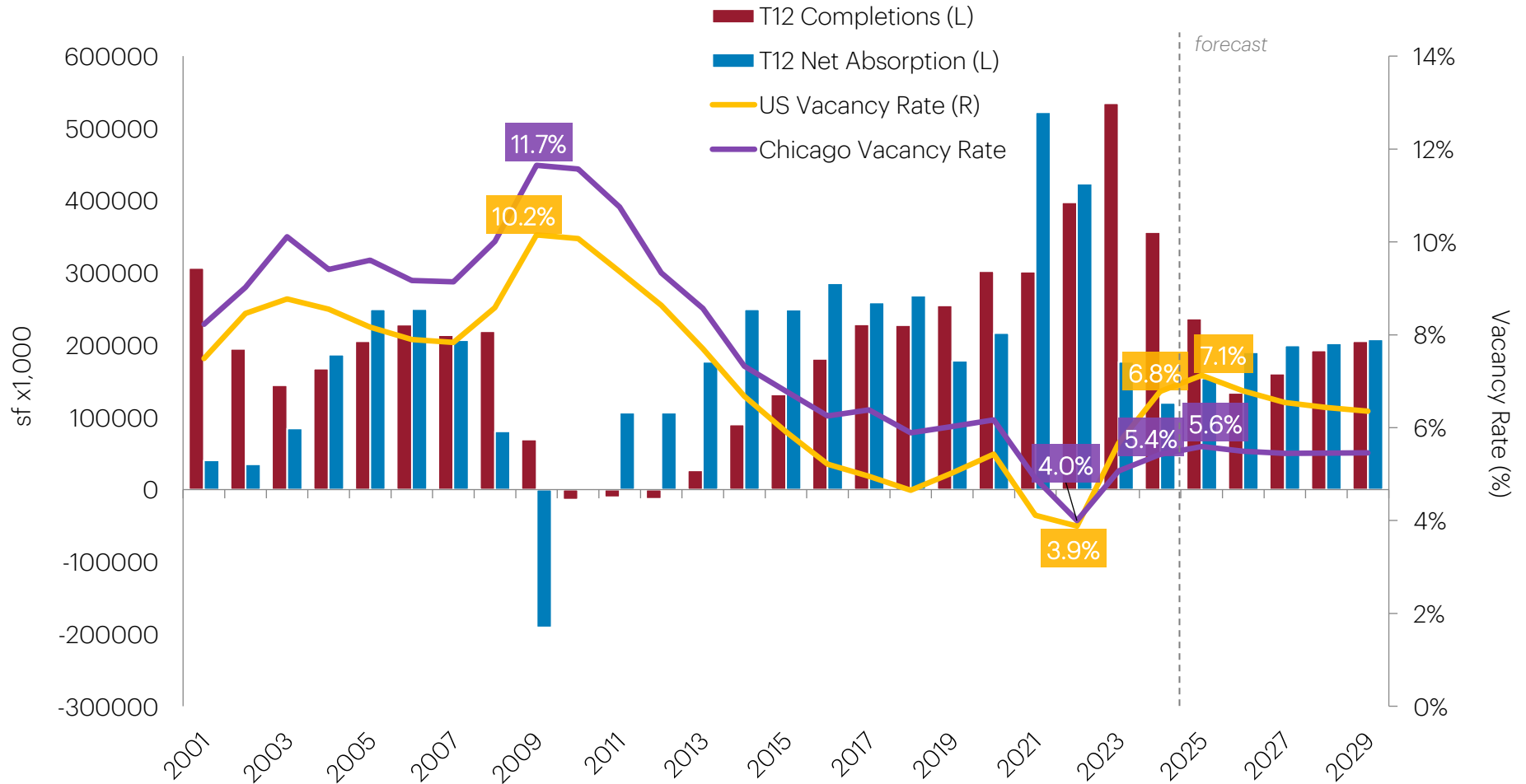


Underlying data source(s): CoStar (accessed Q1 2025)



# Chicago Vacancy to Outperform US in Near-Term

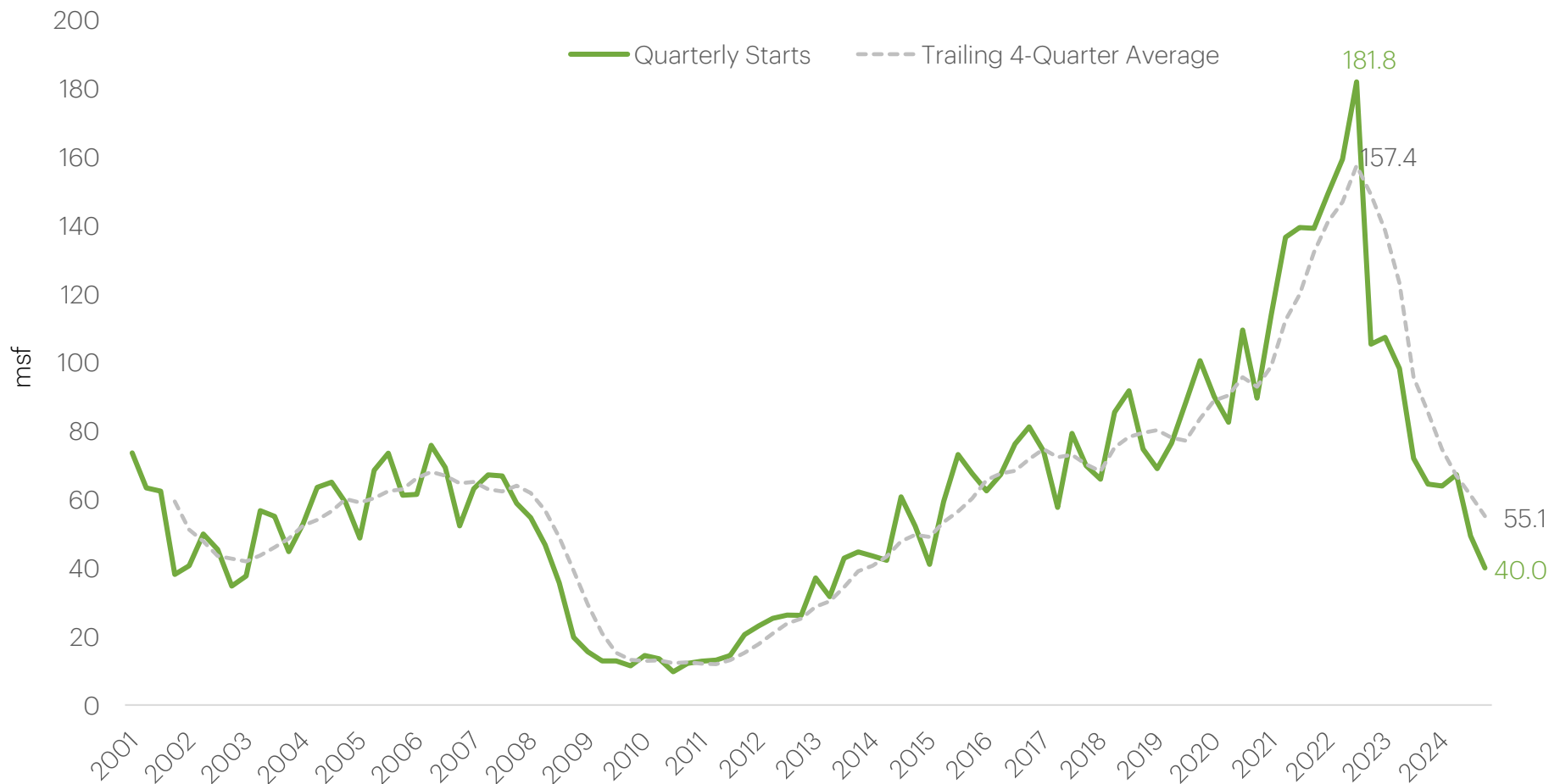
## INDUSTRIAL COMPLETIONS, NET ABSORPTION, AND VACANCY US 2001-2029(F) (YEARS ENDING Q4)



Underlying data source(s): CoStar (accessed Q1 2025)

# Plummet in Industrial Starts Sets Stage for Soft Landing

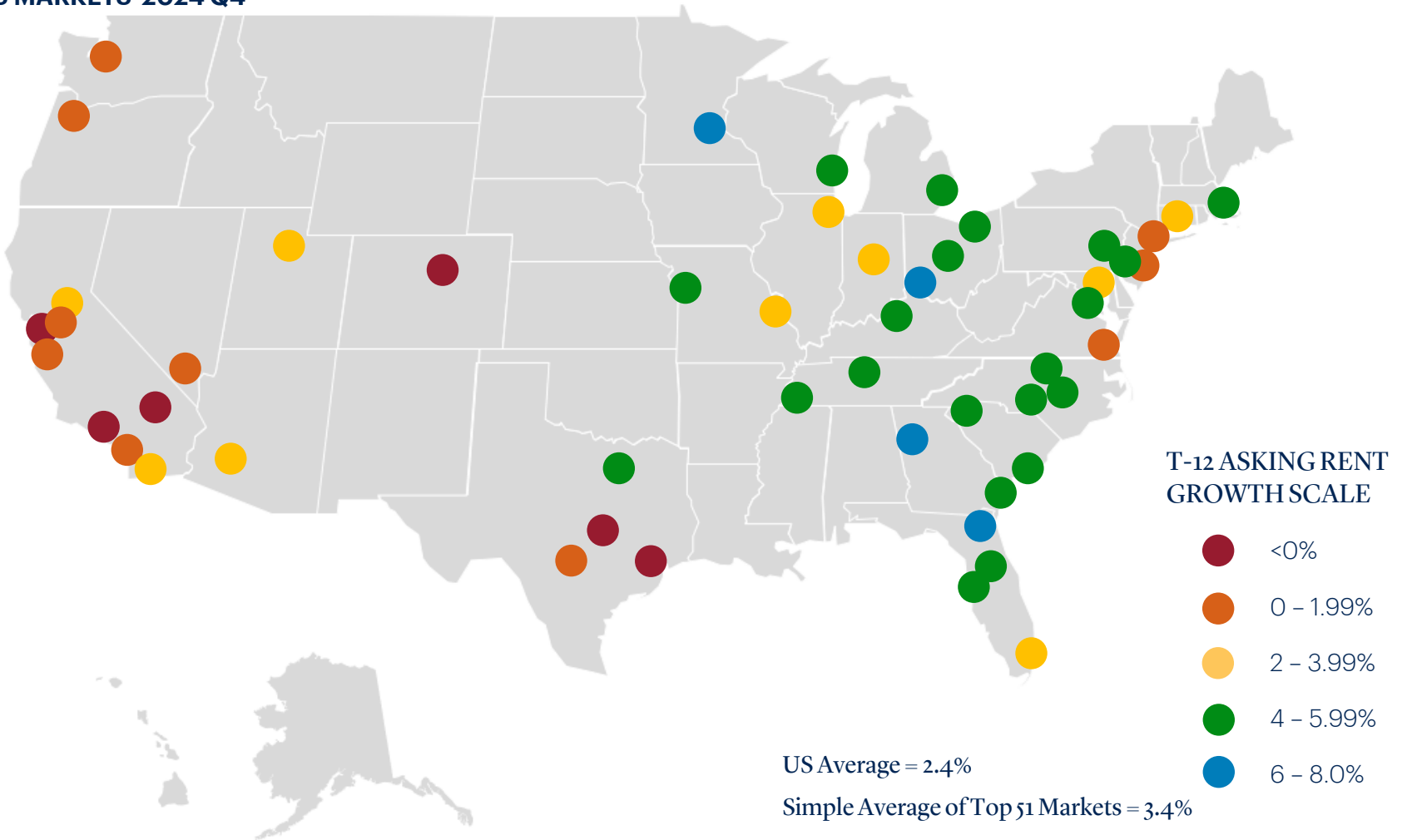
## INDUSTRIAL SECTOR STARTS US 2001-2024 Q4



Underlying data source(s): CoStar (accessed Q1 2025)

# East Coast and Midwest Industrial Markets Outperforming

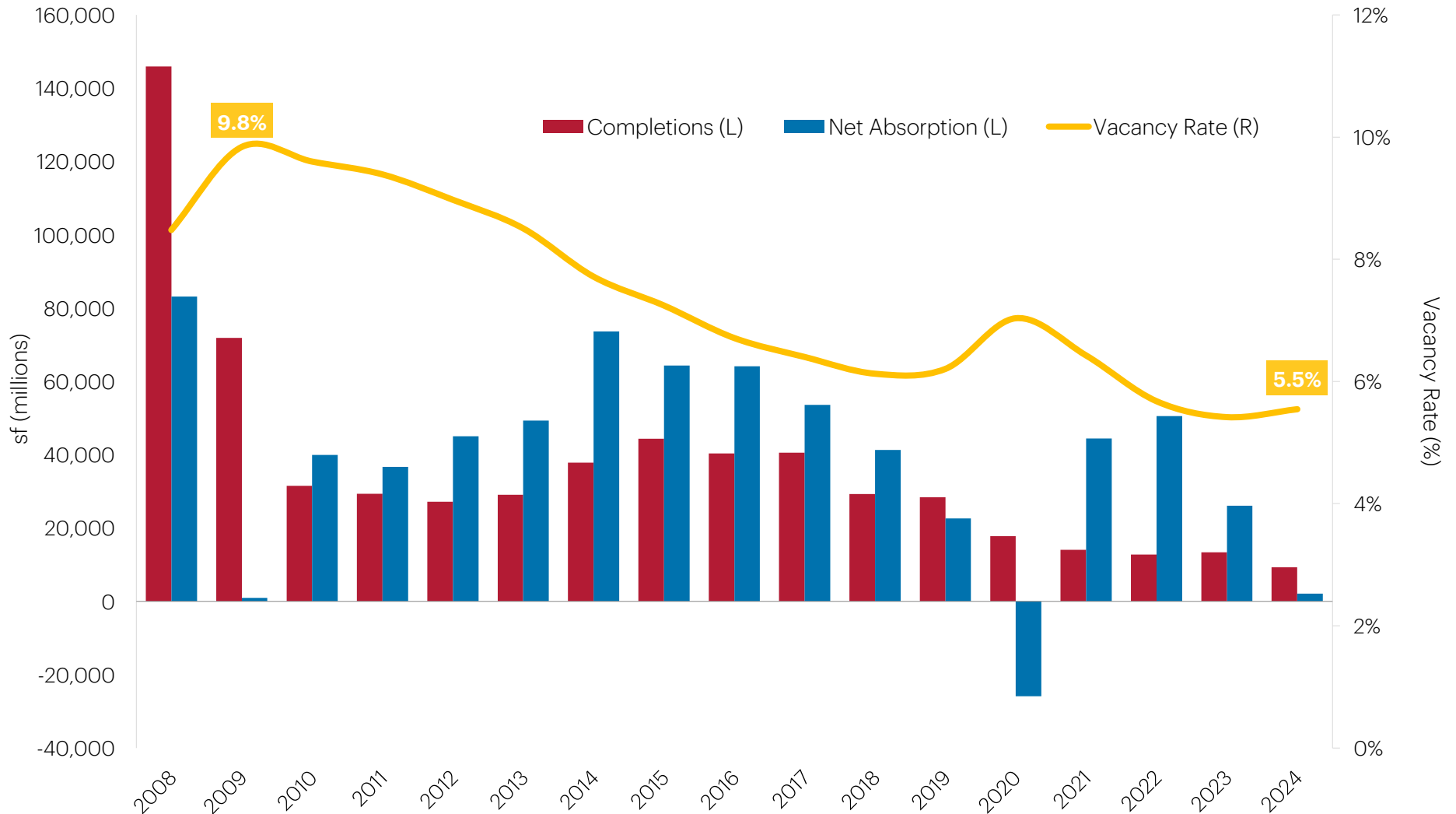
## INDUSTRIAL ASKING RENT GROWTH TOP 51 US MARKETS 2024 Q4



Underlying data source(s): CoStar (accessed Q1 2025)

# US Retail Vacancy Below Pre-COVID Levels

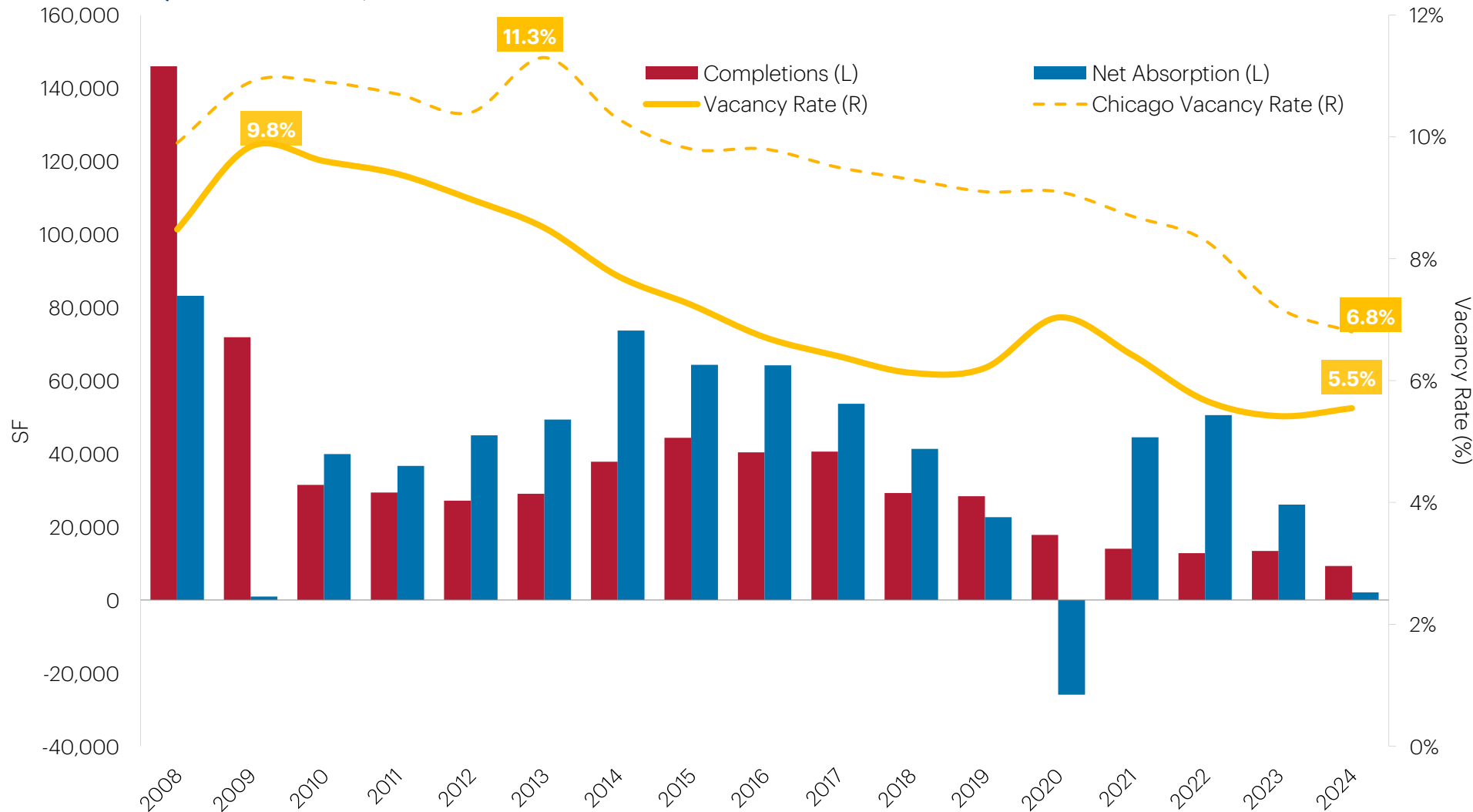
## RETAIL COMPLETIONS, NET ABSORPTION, AND VACANCY US 2008-2024, YEARS ENDING Q4



Data Sources: CoStar database, accessed 2025 Q1

# Chicago Retail Vacancy Remains Above the National Average

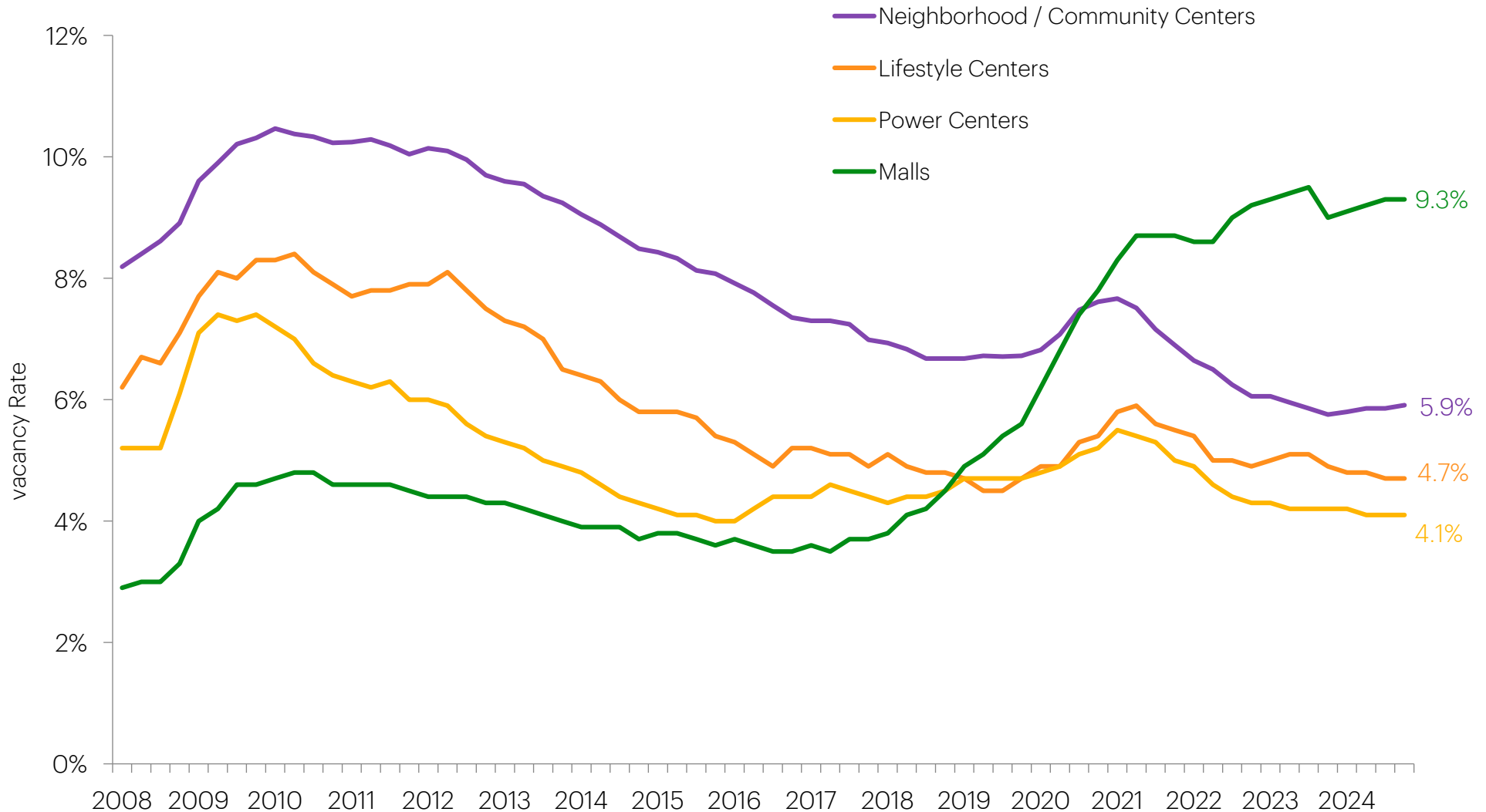
## RETAIL COMPLETIONS, NET ABSORPTION, AND VACANCY US 2008-2024, YEARS ENDING Q4



Underlying Data Source: CoStar "Properties" database, accessed 2025 Q1

# Open-Air Retail Formats Continue to Outperform

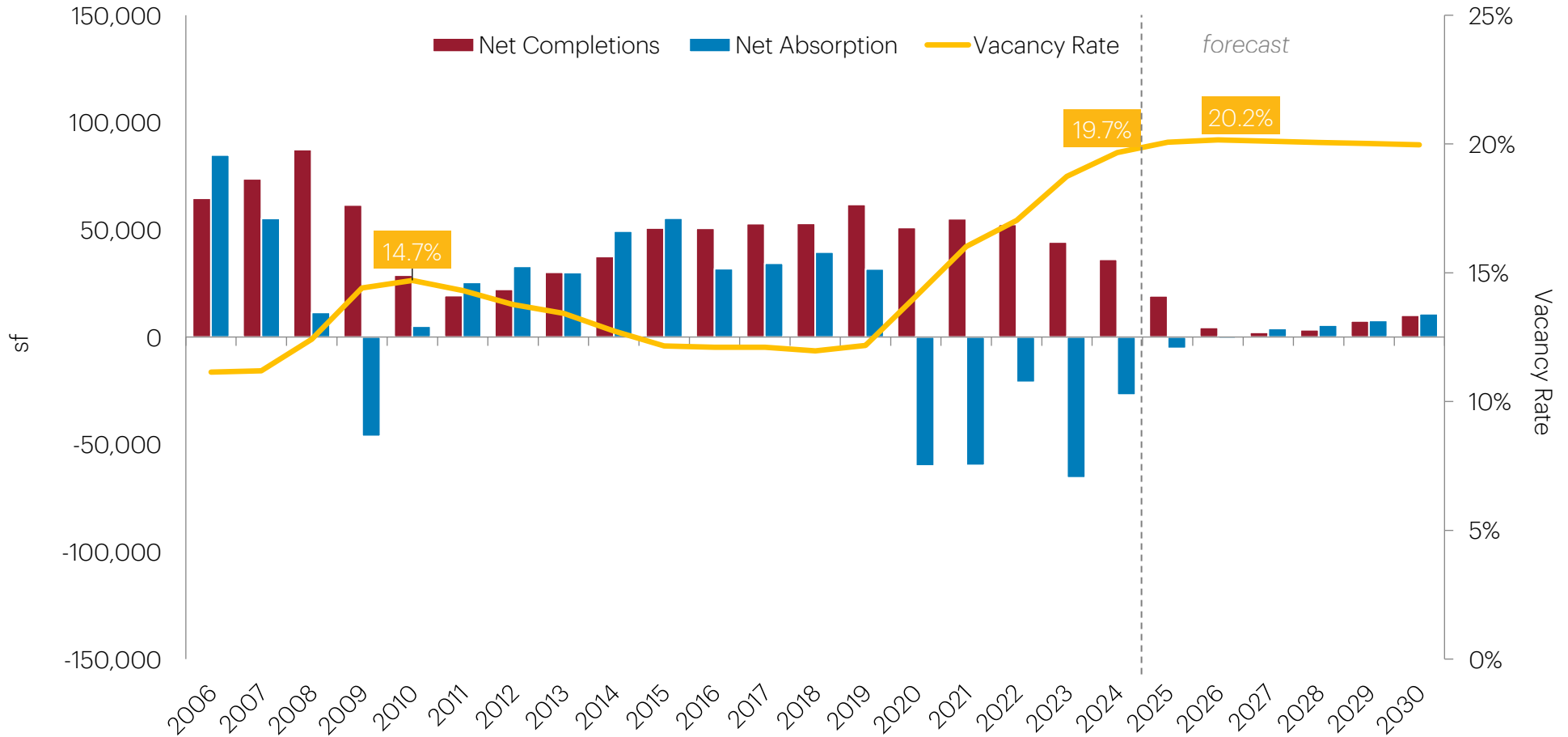
**RETAIL VACANCY BY FORMAT**  
**US 2008 Q1-2024 Q4**



Data Source: CoStar database, accessed 2025 Q1.

# What Will the Office Recovery Look Like?

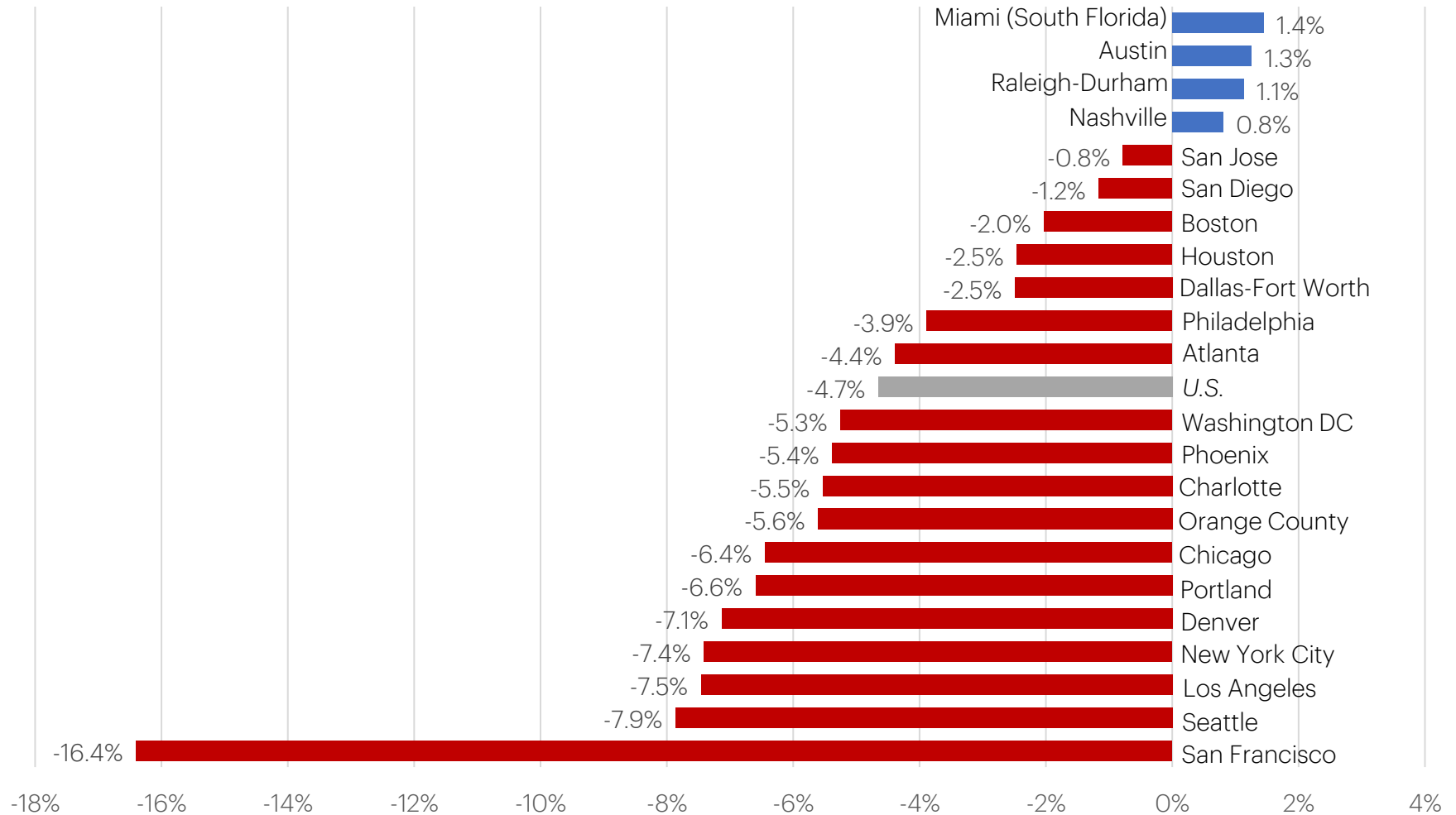
**OFFICE COMPLETIONS, NET ABSORPTION, AND VACANCY**  
**US 2006 - 2030(F) (YEARS ENDING Q4)**



Underlying data source(s): CoStar\* (accessed Q1 2025)  
 \*Adjustments made to CoStar forecast to account for disparity in market inventory.

# WFH has Caused Demand Decline Across Office Markets

## NET ABSORPTION - SHARE OF EXISTING INVENTORY SELECT TOP MARKETS 2020 Q2 - 2024 Q4

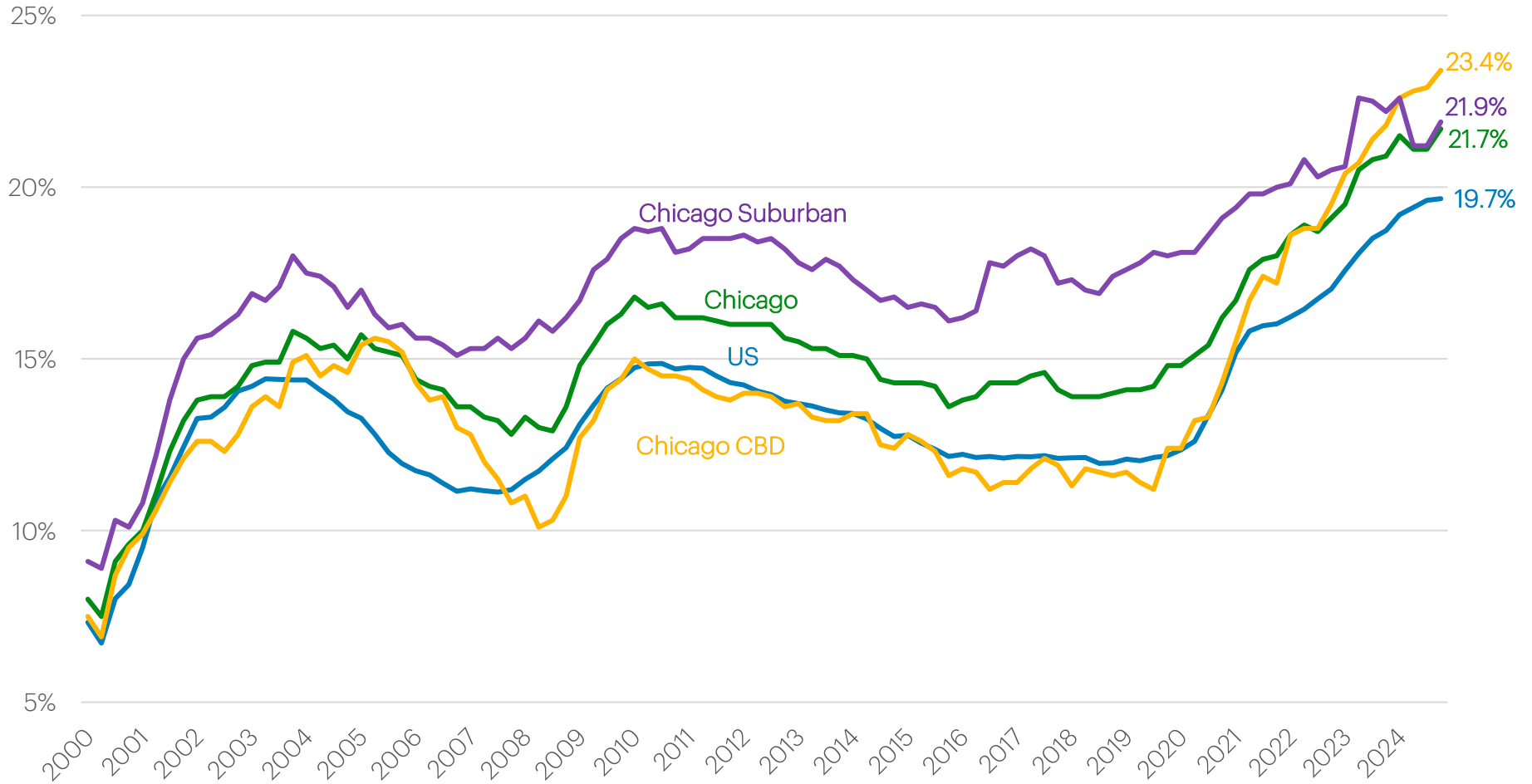


Underlying data source(s): CoStar (accessed Q1 2025)



# Chicago Office Sector Weakness More Pronounced in CBD

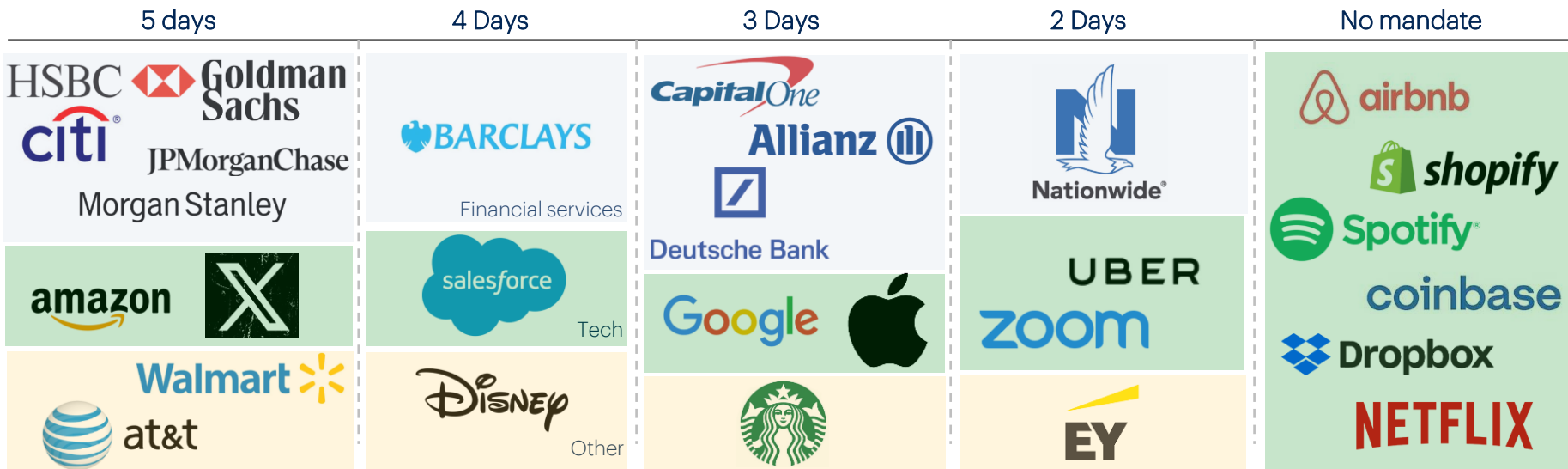
**OFFICE VACANCY RATES**  
**US, CHICAGO 2000 - 2024 Q4**



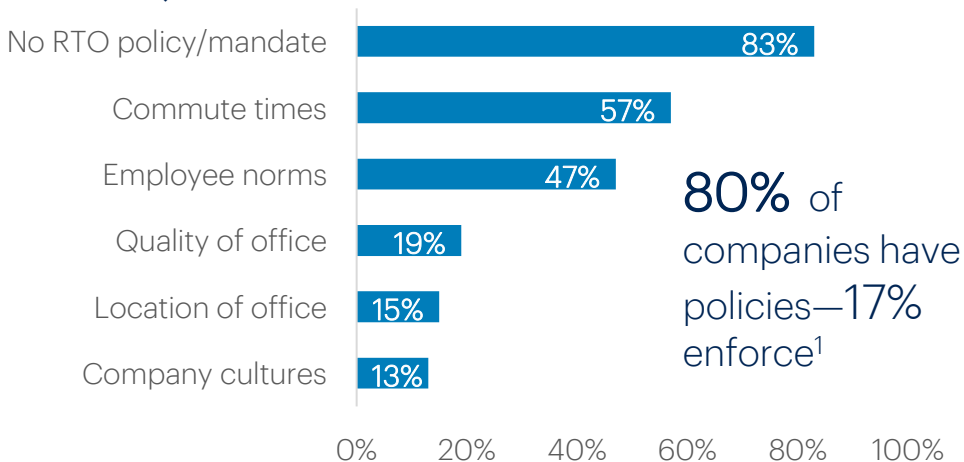
Underlying data source(s): CoStar (accessed Q1 2025)

# RTO To Provide Small Boost to Office in 2025

## COMPANY RTO POLICIES



## BARRIERS TO GREATER OFFICE ATTENDANCE US 2024 Q4



RTO to provide positive demand in 2025

Increase in mandates to small firms and enforcement of RTO to drive cultural shift

Finance leads charge – but more medium-term upside in tech and other firms/government

Green shoot of RTO may not be enough for net absorption overall, but will be a boost

1. CBRE, Q2 2024  
2. Flex Index, Q4 2024

# Megatrends Are Driving Opportunities in Alternative Sectors and Emerging Subtypes



**SELF-STORAGE**



**COLD STORAGE**



**STUDENT HOUSING**



**MANUFACTURED HOUSING**



**LIFE SCIENCES**



**SENIOR HOUSING**



**SINGLE FAMILY RENTALS**



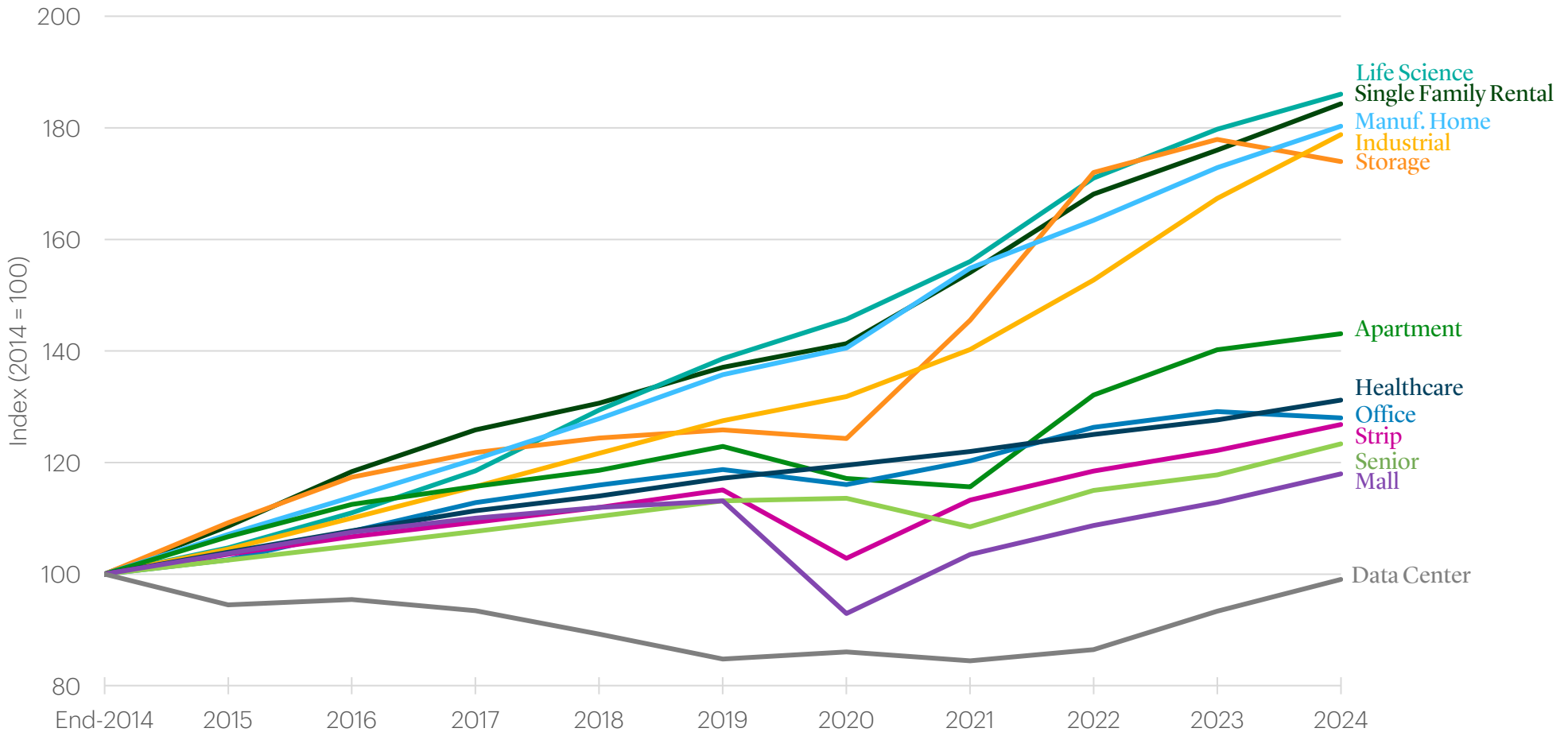
**MEDICAL OFFICE**

Images for illustrative purposes only.

# Long-Term NOI Growth Favors Many Alternatives

HEITMAN

**SAME-STORE NOI GROWTH INDICES**  
**2014-2024, INDEX 2014 = 100**

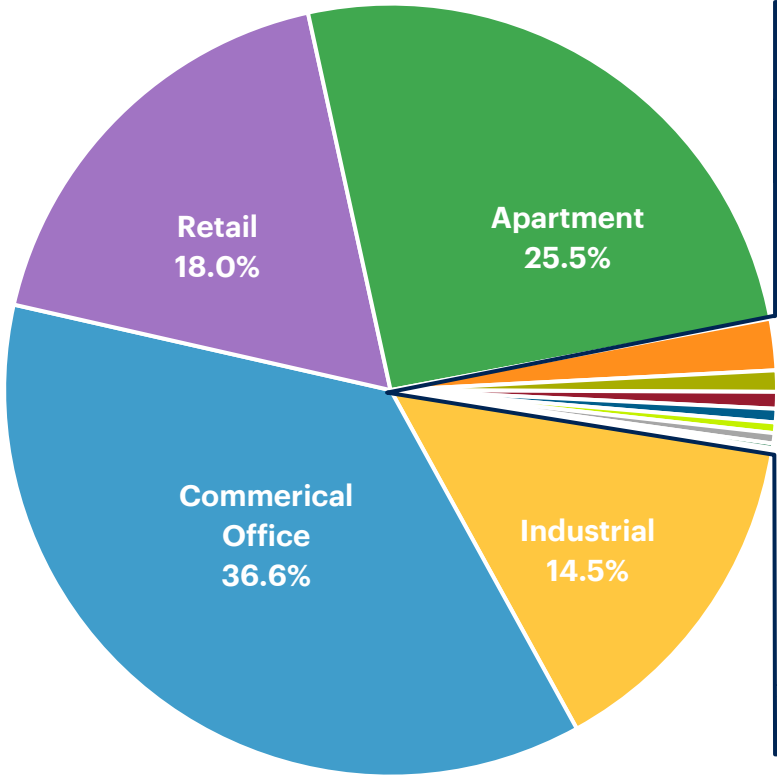


Data Sources: Green Street database, accessed 2025 Q1

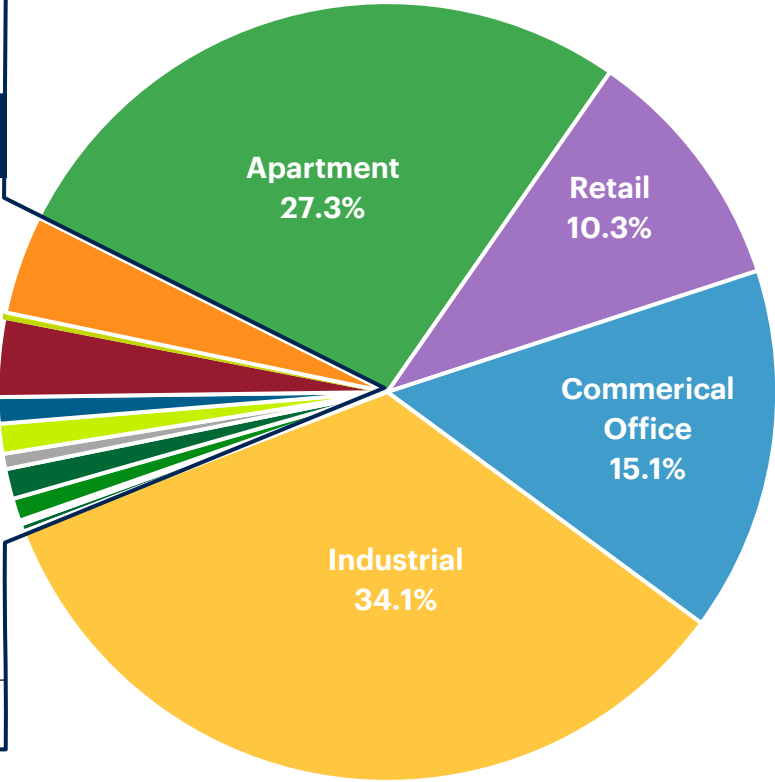
Confidential

## ODCE WEIGHTS BY MARKET VALUE

2013 - 2019



2024 Q3

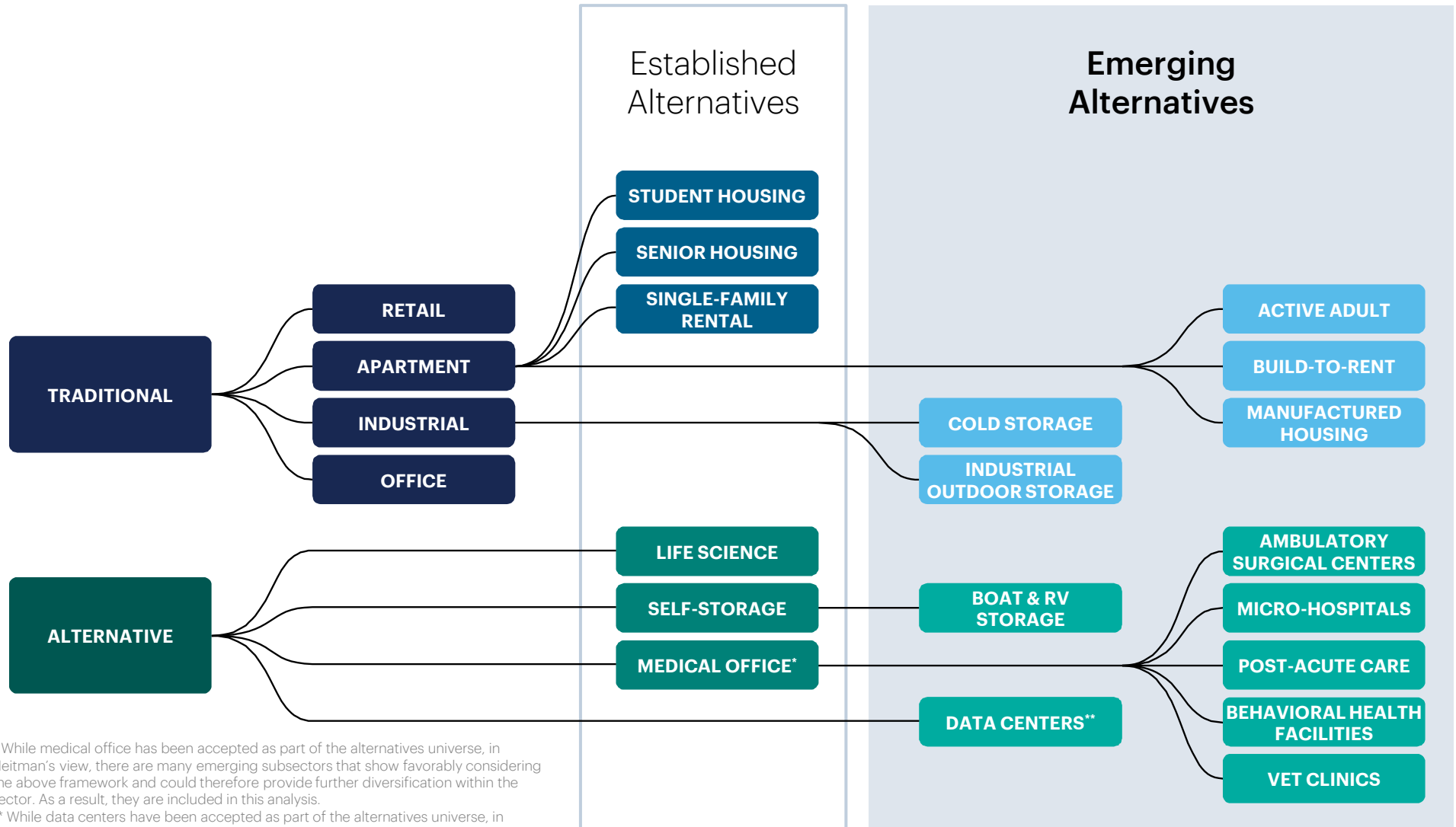


Historic Avg*	Alternative Share	2024 Q3
<b>5.5%</b>	<b>Alternative Share</b>	<b>13.2%</b>
2.1%	Self Storage	4.1%
0.9%	Hotel	0.2%
0.7%	Life Science	3.3%
0.6%	Medical	1.1%
0.4%	Land	1.2%
0.4%	Other	0.6%
0.2%	Student	1.2%
0.1%	SFR	0.9%
0.0%	Senior	0.2%
0.0%	Manufactured	0.3%

\*2013 - 2019

Underlying Data Source: NCREIF Query Tool, ODCE Returns At Share, Accessed Q4 2024. ODCE refers to the NCREIF Open-End Diversified Core Equity Index.

# Expanding the Investment Opportunity Set

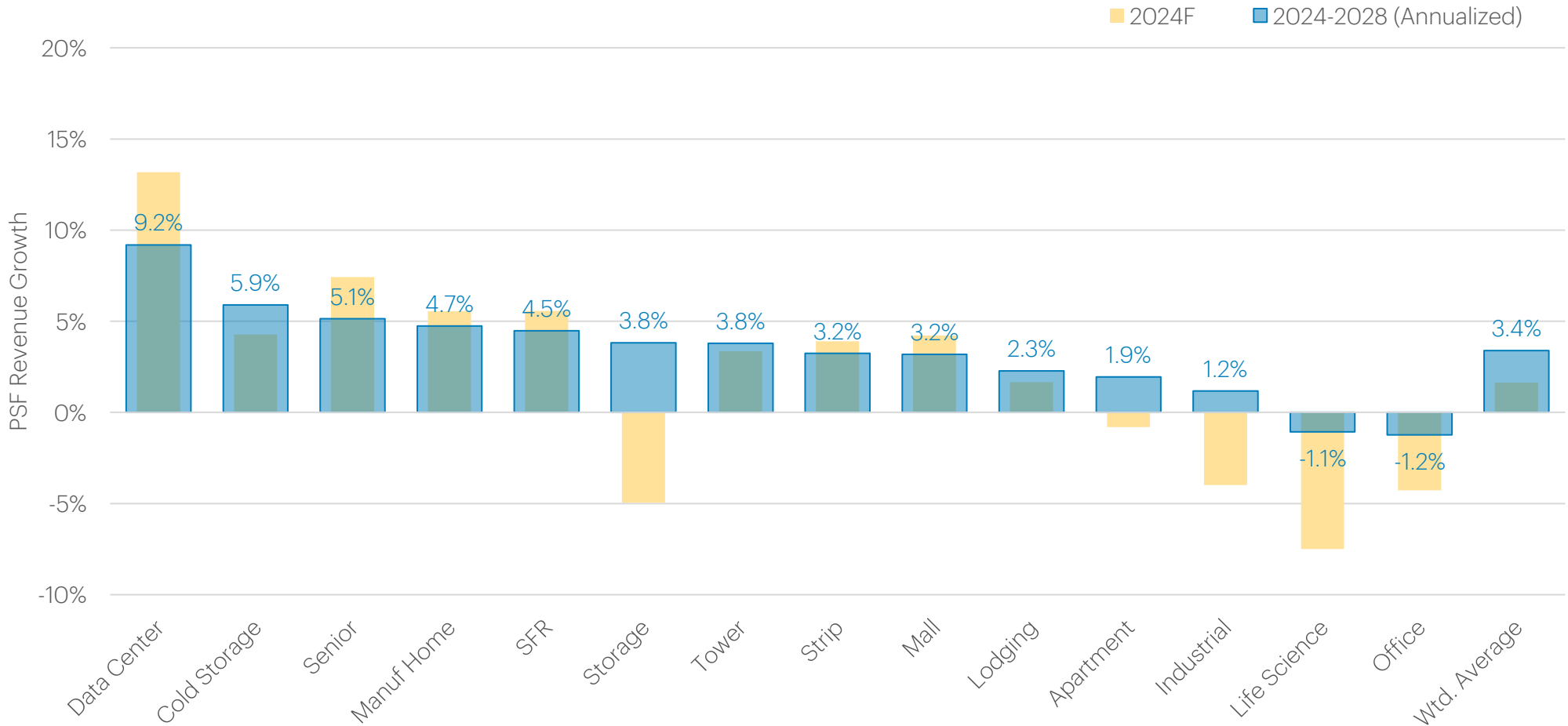


\* While medical office has been accepted as part of the alternatives universe, in Heitman's view, there are many emerging subsectors that show favorably considering the above framework and could therefore provide further diversification within the sector. As a result, they are included in this analysis.

\*\* While data centers have been accepted as part of the alternatives universe, in Heitman's view, they have hit an inflection point and have a far different outlook going forward than has been observed over the past cycle. As a result, they are included in this analysis.

# Revenue Growth Forecast Favors Alternatives

## GREEN STREET EFFECTIVE RENT GROWTH FORECAST BY SECTOR US, 2024F – 2028F ANNUALIZED, AS OF 2024 H2



"Rental Growth" is defined as Green Street's "M-RevPAF" metric, its preferred measure of revenue growth. It stands for "Market Revenue per Available Square Foot," and is calculated as Rent multiplied by Occupancy. Underlying Data Sources: Green Street database, accessed 2024 Q3

HEITMAN BELIEVES THAT:

**Take advantage of illiquidity and mispricing;** make acquisitions below replacement costs

---

**Capitalize on undersupplied market segments** and prepare for recovery in others where a rebound is imminent

---

**Ride secular tailwinds in supercharged sectors** benefitting from megatrends like deglobalization, the aging population, AI, and lack of housing affordability

---

**Invest in alternative sectors** and niche subtypes

---

**Take advantage of market dislocation through lending opportunities,** such as senior bridge loans, subordinated debt, and construction lending

---

**Diversification is crucial** in this era of deglobalization and climate change

---